

**CFOAM LIMITED**  
**ACN 611 576 777**

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## **PROSPECTUS**

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For an offer of up to 45,000,000 Shares at an issue price of \$0.20 per Share to raise up to \$9,000,000 with a minimum subscription of \$5,000,000 (**Public Offer**).

The Prospectus also contains the Secondary Offers.

### **IMPORTANT INFORMATION**

This is an important document that should be read in its entirety. If you do not understand it you should consult your professional advisers without delay. **The Securities offered by this Prospectus should be considered highly speculative.**

**CFOAM LIMITED**  
**ACN 611 576 777**

**SUPPLEMENTARY PROSPECTUS**

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**1. IMPORTANT INFORMATION**

This is a supplementary prospectus (**Supplementary Prospectus**) intended to be read with the prospectus dated 21 June 2016 (**Prospectus**), issued by CFOAM Limited (ACN 611 576 777) (**Company**). The Prospectus was prepared in order to:

- (a) complete the Public Offer to support the Company's proposed business activities following its Acquisition of the Assets; and
- (b) satisfy the requirements for the Company to be admitted to the Official List of the ASX, including the requirement to issue a disclosure document under section 710 of the Corporations Act.

This Supplementary Prospectus dated 4 July 2016 was lodged with the ASIC on that date. The ASIC and its officers take no responsibility for the contents of this Supplementary Prospectus.

Other than as set out below, all details in relation to the Prospectus remain unchanged. Terms and abbreviations defined in the Prospectus have the same meaning in this Supplementary Prospectus. If there is a conflict between the Prospectus and this Supplementary Prospectus, this Supplementary Prospectus will prevail.

This Supplementary Prospectus will be issued with the Prospectus as an electronic prospectus and may be accessed on the Company's website at <http://www.cfoam.com>.

This is an important document and should be read in its entirety. If you do not understand it you should consult your professional advisers without delay.

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**2. REASONS FOR SUPPLEMENTARY PROSPECTUS**

**2.1 Purpose of this document**

The purpose of this Supplementary Prospectus is to:

- (a) amend the indicative timetable;
- (b) amend the Intellectual Report to delete paragraph 1.1 and the disclaimer included by the Patent Attorney at paragraph 1.7 of the Intellectual Property Report and replace those paragraphs as set out in this Supplementary Prospectus;
- (c) provide further explanation in regards to:
  - (i) the methods by which the Company proposes to improve efficiencies in the production process for CFOAM products enabling reductions in its operating costs and increasing production output capacity;
  - (ii) the current bottlenecks that exist in the production process of CFOAM products and what is required to de-bottleneck the production process; and

- (iii) the Company's proposes application of its existing cash reserves and funds raised from the Public Offer.

### 3. CHANGES TO THE PROSPECTUS

#### 3.1 Section 4.2 Indicative Timetable

The indicative timetable in Section 4.2 is deleted and replaced with the following \*:

|   |               |
|---|---------------|
| Lodgement of Prospectus with the ASIC               | 21 June 2016  |
| Lodgement of Supplementary Prospectus with the ASIC | 4 July 2016   |
| Opening Date of the Offers                          | 27 June 2016  |
| Closing Date of the Offers                          | 18 July 2016  |
| Issue of Securities under the Offers                | 27 July 2016  |
| Completion of the Acquisition                       | 27 July 2016  |
| Despatch of holding statements                      | 29 July 2016  |
| Expected date for quotation on ASX                  | 3 August 2016 |

\* The above dates are indicative only and may change without notice. The Company reserves the right to extend the Closing Date or close the Offers early without notice."

#### 3.2 Section 4.4 Use of Funds

The original use of funds table set out in Section 4.4 of the Prospectus is deleted and replaced with the following:

| Funds available  | Minimum Subscription (\$) (\$5,000,000) | Percentage of Funds | Full Subscription (\$) (\$9,000,000) | Percentage of Funds |
|--|---|---------------------|--------------------------------------|---------------------|
| Existing cash reserves including funds held in escrow account for acquisition <sup>1</sup> | 844,501                                 | 14.4%               | 844,501                              | 8.6%                |
| Funds raised from the Public Offer   | 5,000,000                               | 85.6%               | 9,000,000                            | 91.4%               |
| <b>Total</b>   | <b>5,844,501</b>                        | <b>100.0%</b>       | <b>9,844,501</b>                     | <b>100.0%</b>       |
| <b>Allocation of funds</b>   |   |                     |                                      |                     |
| Expenses of the Offers <sup>2</sup>  | 370,000                                 | 6.3%                | 415,000                              | 4.2%                |
| Capital raising fees   | 250,000                                 | 4.3%                | 450,000                              | 4.6%                |
| Settlement of Acquisition – US\$2,200,000  | 3,055,556                               | 52.3%               | 3,055,556                            | 31.1%               |

|  |                  |               |                  |               |
|--|------------------|---------------|------------------|---------------|
| Process de-bottleneck and upgrades <sup>3</sup>                      | 711,110          | 12.2%         | 711,110          | 7.2%          |
| Sales, general administration costs and working capital <sup>4</sup> | 1,457,835        | 24.9%         | 5,212,835        | 52.9%         |
| <b>Total</b>   | <b>5,844,501</b> | <b>100.0%</b> | <b>9,844,501</b> | <b>100.0%</b> |

A US\$/\\$ rate of 0.72 has been adopted in this table.

**Notes:**

1. Refer to the Investigating Accountant's Report set out in Section 8 for further details on the audited financial reports. A US\$200,000 escrow deposit has been lodged in an account as part of the Acquisition.
2. Refer to Section 12.10 for further details.
3. Please refer below and to Section 6.4 for a more detailed breakdown.

| Item  | (\$)           |
|---|----------------|
| Coal sizing & handling upgrades (purchase of pans to store coal, storage racks for the pans, racks cars and a bulk handling container for coal feedstock) | 347,222        |
| Active cooling (purchase of an active cooling system for a kiln)  | 138,888        |
| Billet sizing, handling and storage system (purchase 3 axis mills plus handling & storage)  | 225,000        |
| <b>TOTAL</b>  | <b>711,110</b> |

4. Please refer below for a more detailed breakdown.

| Item   | Minimum Subscription (\$) | Maximum Subscription (\$) |
|--|---------------------------|---------------------------|
| Sales & marketing  | 376,250                   | 814,167                   |
| General administration (salaries, rent and administration costs)     | 796,527                   | 1,194,790                 |
| Working capital (general business costs and unanticipated expenses)  | 285,058                   | 1,606,656                 |
| Upgrades to capital items to expand facilities                       | -                         | 208,333                   |
| Payment of deferred consideration under the Asset Purchase Agreement | -                         | 1,388,889                 |
| <b>TOTAL</b>   | <b>1,457,835</b>          | <b>5,212,835</b>          |

### **3.3 Section 6.4 CFOAM Manufacturing Scale Up**

A new paragraph is included in Section 6.4 after the first paragraph in that Section:

"The Company has identified capital expenditure improvements in its business model to debottleneck production, increase output capacity and lower costs. The bottlenecks identified in the current production process are machines that need to be acquired for use in the production process or machines that are not currently operating at optimal efficiency. As further set out in the notes to Section 4.4, in order to produce CFOAM products at commercial quantities and streamline the processes for the production of CFOAM products, the Company proposes to:

- (a) make upgrades to coal sizing and handling processes by purchasing a second set of pans (which will contain coal during the conversion of coal from a powdered form to a CFOAM product form), storage racks for the pans and rack cars which will increase the production of "green CFOAM" from the autoclave oven. The Company also proposes to purchase an additional bulk handling container system for storage of large quantities of coal which will be required as the production of CFOAM products increases;
- (b) acquire an active cooling system for one of its kilns which will reduce the processing time of the kiln; and
- (c) acquire a billet milling machine to enable the Company to produce carbon foam billets of a larger size than can currently be produced.

The Company expects to improve efficiencies in the production process and reduce operating costs by undertaking these capital expenditure improvements which will streamline the processes for the production of CFOAM products."

### **3.4 Section 9 Intellectual Property Report**

The Patent Attorney has consented to the inclusion of the Intellectual Property Report in the Prospectus in the form and context in which it is prepared.

Paragraphs 1.1 and 1.7 of the Intellectual Property Report are deleted and replaced with the following:

"1.1. In preparing this report, BIR has relied upon the patents and trademarks present in the schedules of the APA, as well as on patent assignment and maintenance fee information and the trademark status information provided in the public records of the United States Patent and Trademark Office as available on the Office's website at [www.uspto.gov](http://www.uspto.gov)."

"1.7 BIR has not conducted any analysis of validity, enforceability, infringement, or freedom to operate related to any of the patents or trademarks included in this IP Report. This IP Report is not to be taken as a determination of validity, enforceability, or infringement of any patents or trademarks included in this IP Report, or as a determination of freedom to operate of any Carbon Innovations IP, whether or not that IP is embodied in the patents and trademarks included in this IP Report. Our review was limited as expressly set forth herein."

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**4. PROVISION OF SUPPLEMENTARY PROSPECTUS TO INVESTORS**

A copy of this Supplementary Prospectus will be available on the Company's website at <http://www.cfoam.com>.

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**5. DIRECTORS' AUTHORISATION**

This Supplementary Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with Section 720 of the Corporations Act, each Director has consented to the lodgement of this Supplementary Prospectus with the ASIC.

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**Gary Steinepreis**  
**Non-executive Chairman**  
**For and on behalf of**  
**CFOAM Limited**

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## 1. CORPORATE DIRECTORY

### Directors

Gary Steinepreis  
*Non-Executive Chairman*

Michael Placha  
*Managing Director*

Toby Chandler  
*Non-Executive Director*

### Company Secretary

Gary Steinepreis

### Registered Office

Level 1  
33 Ord Street  
WEST PERTH WA 6005

Telephone: + 61 8 9420 9300  
Facsimile: +61 8 9420 9399

Website: [www.cfoam.com](http://www.cfoam.com)

### Proposed ASX Code

CFO

### Share Registry\*

Computershare Investor Services Pty  
Limited  
Level 11, 172 St George's Terrace  
Perth WA 6000

### Solicitors

Steinepreis Paganin  
Level 4, The Read Buildings  
16 Milligan Street  
PERTH WA 6000

### Auditor

BDO Audit (WA) Pty Ltd  
38 Station Street  
SUBIACO WA 6008

### Patent Attorney

Buchanan Ingersoll & Rooney PC  
One Oxford Centre  
301 Grant Street, 20<sup>th</sup> Floor  
Pittsburgh, PA 15219

### Investigating Accountant

BDO Corporate Finance (WA) Pty  
Ltd  
38 Station Street  
SUBIACO WA 6008

### Managers to the Public Offer\*

Jett Capital Advisors Pty Ltd  
2 / Level 8, 66 Hunter Street  
Sydney NSW 2000

Peak Asset Management Pty Ltd  
Level 39, 55 Collins Street  
Melbourne VIC 3000

\* This entity is included for information purposes only. It has not been involved in the preparation of this Prospectus.



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## 2. IMPORTANT NOTICES

This Prospectus is dated 21 June 2016 and was lodged with the ASIC on that date. The ASIC and its officers take no responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

No Securities may be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

No person is authorised to give information or to make any representation in connection with this Prospectus, which is not contained in the Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

It is important that you read this Prospectus in its entirety and seek professional advice where necessary. The Securities the subject of this Prospectus should be considered highly speculative.

### 2.1 Exposure Period

This Prospectus will be circulated during the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. You should be aware that this examination may result in the identification of deficiencies in this Prospectus and, in those circumstances, any application that has been received may need to be dealt with in accordance with section 724 of the Corporations Act. Applications for Securities under this Prospectus will not be processed by the Company until after the expiry of the Exposure Period. No preference will be conferred on applications lodged prior to the expiry of the Exposure Period.

### 2.2 Investment Advice

This Prospectus does not provide investment advice and has been prepared without taking account of your financial objectives, financial situation or particular needs (including financial or taxation issues). You should seek professional investment advice before subscribing for Securities under this Prospectus.

### 2.3 Additional Offers

This Prospectus also includes:

- (a) a private offer of 9,187,500 Shares to Touchstone Research and/or Brian Joseph or their nominee(s) in consideration for the Acquisition (**Consideration Offer**);
- (b) a private offer of up to 1,800,000 Shares to parties that have acted as advisors or consultants to the Company (**Advisors**) or their nominee(s) in consideration for introducing the Acquisition to the Company and assisting with its implementation (**Advisor Offer**); and
- (c) a private offer of up to 1,750,000 Options to Daniel Placha or his nominee(s), a senior manager of Carbon Innovations, in consideration for the provision of services by him to the Company and its subsidiaries (**Manager Offer**),

(together, the **Secondary Offers**).

## 2.4 Conditional Offers

The Offers are conditional on:

- (a) ASX conditional approval to admit the Shares to Official Quotation; and
- (b) the Company receiving valid applications for at least \$5,000,000 worth of Shares under the Public Offer,

(together, the **Conditions**).

Accordingly, the Offers under this Prospectus are effectively inter-conditional on the successful completion of each other part of the Acquisition.

## 2.5 Expiry Date

No Securities may be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

## 2.6 Forwarding-looking statements

This Prospectus contains forward-looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects', or 'intends' and other similar words that involve risks and uncertainties.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the Directors and our management.

Although the Company believes that the expectations reflected in the forward looking statements included in this Prospectus are reasonable, none of the Company, its Directors, proposed Directors or officers, or any person named in this Prospectus, can give, or gives, any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur or that the assumptions on which those statements are based will prove to be correct or exhaustive beyond the date of its making. Investors are cautioned not to place undue reliance on these forward-looking statements.

Except to the extent required by law, the Company has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus.

These forward looking statements are subject to various risk factors that could cause our actual results to differ materially from the results expressed or anticipated in these statements. These risk factors are set out in Section 7 of this Prospectus.

## 2.7 Privacy statement

By completing and returning an Application Form, you will be providing personal information directly or indirectly to the Company, the Share Registry, Jett

Capital, Peak Asset Management and related bodies corporate, agents, contractors and third party service providers of the foregoing (**Collecting Parties**). The Collecting Parties collect, hold and will use that information to assess your Application, service your needs as a Shareholder and to facilitate distribution payments and corporate communications to you as a Shareholder.

By submitting an Application Form, you authorise the Company to disclose any personal information contained in your Application Form (**Personal Information**) to the Collecting Parties where necessary, for any purpose in connection with the Offers, including processing your acceptance of an Offer and complying with applicable law, the ASX Listing Rules, the ASX Settlement Operating Rules and any requirements imposed by any Public Authority.

If you do not provide the information required in the Application Form, the Company may not be able to accept or process your acceptance of the Offers.

If the Offers are successfully completed, your Personal Information may also be used from time to time and disclosed to persons inspecting the register of Shareholders, including bidders for your securities in the context of takeovers, Public Authorities, authorised securities brokers, print service providers, mail houses and the Share Registry.

Any disclosure of Personal Information made for the above purposes will be on a confidential basis and in accordance with the *Privacy Act 1988* (Cth) and all other legal requirements. If obliged to do so by law or any Public Authority, Personal Information collected from you will be passed on to third parties strictly in accordance with legal requirements. Once your Personal Information is no longer required, it will be destroyed or de-identified. As at the date of this Prospectus, the Company does not anticipate that Personal Information will be disclosed to any overseas recipient.

Subject to certain exemptions under law, you may have access to Personal Information that the Collecting Parties hold about you and seek correction of such information. Access and correction requests, and any other queries regarding this privacy statement, must be made in writing to the Share Registry at the address set out in the Corporate Directory in Section 1 of this Prospectus. A fee may be charged for access.

## **2.8 Web Site – Electronic Prospectus**

A copy of this Prospectus can be downloaded from the website of the Company at [www.cfoam.com](http://www.cfoam.com). If you are accessing the electronic version of this Prospectus for the purpose of making an investment in the Company, you must be an Australian or New Zealand resident and must only access this Prospectus from within Australia or New Zealand.

There is no facility for the Offers to be accepted electronically or by applying online. Securities will not be issued under the electronic version of the Prospectus. The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. You may obtain a hard copy of this Prospectus free of charge by contacting the Company.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic

Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

## **2.9 Website**

No document or information included on our website is incorporated by reference into this Prospectus.

## **2.10 Defined terms**

Unless the contrary intention appears or the context otherwise requires, words and phrases contained in this Prospectus have the same meaning and interpretation as given in the Corporations Act and capitalised terms have the meaning given in the Glossary in Section 14 of this Prospectus.

## **2.11 Time**

All references to time in this Prospectus are references to Australian Western Standard Time.

## **2.12 Risks**

You should read this document in its entirety and, if in any doubt, consult your professional advisers before deciding whether to apply for Securities. There are risks associated with an investment in the Company and the Securities offered under this Prospectus must be regarded as a speculative investment. The Securities offered under this Prospectus carry no guarantee with respect to return on capital investment, payment of dividends or the future value of the Securities. Refer to Section 7 of this Prospectus for details relating to risk factors.

## **2.13 Photographs and Diagrams**

Photographs used in this Prospectus which do not have descriptions are for illustration only and should not be interpreted to mean that any person shown endorses the Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this prospectus are illustrative only and may not be drawn to scale.

## **2.14 Enquiries**

If you are in any doubt as to how to deal with any of the matters raised in this Prospectus, you should consult your broker or legal, financial or other professional adviser without delay. Should you have any questions about the Offers or how to accept the Offers, please call the Company Secretary, Gary Steinepreis on +61 8 9420 9300.

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### 3. CHAIRMAN'S LETTER

Dear Investor,

On behalf of the Board of CFOAM Limited, it is my privilege and pleasure to present this Prospectus for our initial public offer. CFOAM Limited will raise up to \$9 million, with a minimum subscription of \$5 million under the Public Offer which will be used settle the Acquisition, implement the de-bottleneck of the CFOAM production process and commence the Company's commercialisation strategy.

There has been growing demand for ultra-high end performance engineering materials in the military, industrial, aerospace and commercial product markets. In response to this, Touchstone Research, a United States based entity, has directly and through funding grants, invested over US\$60 million to date in developing CFOAM products and end use applications.

As a result of the development of the CFOAM products and end use applications, the Company (via its wholly owned subsidiary) has entered into an asset purchase agreement to acquire all production plant and equipment, intellectual property contracts and infrastructure related to the production of "CFOAM". This acquisition is subject to the satisfaction of various conditions precedent (summarised in Section 11.1) and following this acquisition, the Company intends to grow and become a recognised player in the production of high end performance engineering materials.

On behalf of the board of Directors, I present the Public Offer to you and recommend that you read this Prospectus in full. I look forward to welcoming you as a supportive shareholder of the Company.

Yours sincerely

**Gary Steinepreis**  
**Non-Executive Chairman**

#### 4. INVESTMENT OVERVIEW

This section is a summary only and not intended to provide full information for investors intending to apply for Securities offered pursuant to this Prospectus. This Prospectus should be read and considered in its entirety.

| Item                                     | Summary  | Further information  |
|--|--|----------------------|
| <b>A. Company</b>                        |  |                      |
| Who is the issuer of this Prospectus?    | CFOAM Limited (ACN 611 576 777) (Proposed ASX code: CFO).  |                      |
| Who is the Company?                      | <p>The Company was incorporated on 30 March 2016 as a holding company to Carbon Innovations to complete the Asset Purchase Agreement. On 29 March 2016, Carbon Innovations entered into the Asset Purchase Agreement with Touchstone Research and Brian Joseph to acquire all of the Assets which are used or held for use in connection with the production of CFOAM.</p> <p>In the near term, the Company's main focus will be the development and commercialisation of the CFOAM products and end use applications.</p> | Sections 6.1 and 6.2 |
| How will the Acquisition be implemented? | The Company is completing the Public Offer to raise funds to enable it to settle on the Asset Purchase Agreement and upon Completion of the Asset Purchase Agreement, the Company will proceed to the commercialisation strategy for CFOAM.  | Section 11.1         |
| What is CFOAM?                           | CFOAM is an inorganic carbon material that is manufactured from coal, pitch or lignin feed stock. CFOAM manufactured in this process has a rigid foam structure which can be used in a variety of markets, including composite tooling for the aerospace sector, energy absorbing applications and defence applications.   | Section 6.1          |

| Item  | Summary   | Further information |
|---|---|---------------------|
| How were the terms of the Acquisition agreed? | <p>The Acquisition was negotiated on an arm's length basis, and the Company is satisfied that the terms of the Asset Purchase Agreement are the best terms that the Company was able to negotiate with Touchstone Research.</p> <p>The Acquisition and Public Offer will provide CFOAM with the capital to execute its commercialisation strategy.</p> <p>The historical position does not provide a sufficient basis, nor is it possible or appropriate to apply formal valuation methodologies (e.g. discounted cash flow) to the Acquisition consideration.</p> <p>In determining whether the consideration for the Acquisition was appropriate, and accordingly whether the Company should make the Acquisition, the Company considered the following factors:</p> <ul style="list-style-type: none"> <li>(a) The Assets being acquired from Touchstone Research include plant and equipment which is recorded at cost of over US\$5,325,000 (written down value of US\$2,475,000), leasehold improvements and capitalised patent costs of over US\$1,065,000.</li> <li>(b) The total cash consideration is US\$7,000,000 of which US\$4,800,000 is deferred consideration which is due and payable once further business performance hurdles have been achieved (see Section 11.1).</li> <li>(c) Touchstone Research, a United States based entity, has directly and through funding grants, invested over US\$60 million to date in developing CFOAM products and end use applications.</li> <li>(d) The market and business growth for CFOAM products is growing (see Section 6 for further information on the market and business growth).</li> </ul> |                     |

| Item  | Summary  | Further information |
|---|--|---------------------|
|   | <p>(e) Touchstone Research's interest in the CFOAM technology is currently protected by a number of US patents which gives the Board comfort on the status of the CFOAM technology and the intellectual property rights of Touchstone Research (see Section 6.5 and the Intellectual Property Report at Section 9).</p> <p>(f) CFOAM has a credible technical and management team (see Section 4.10 for details of management profiles).</p> <p>The Board is of the view that proceeding with the Acquisition is in the best interests of the Company for the reasons set out above.</p> |                     |
| <b>B. Business Model</b>                                      |  |                     |
| What are the key business strategies of the Company?          | Upon Completion of the Acquisition, completion of the Offers and the admission to trading of the Shares on the ASX, the Company will proceed to the commercialisation strategy for CFOAM.  | Section 6           |
| How will the Company generate income?                         | The commercialisation strategy will focus on the de-bottleneck of the production process, building inventory and using the sales and marketing staff to generate leads and ultimately provide customers with a confidence of the ability of the Company to meet orders and supply CFOAM.   | Section 6           |
| What are the key dependencies of the Company's business model | <p>The key factors that the Company will depend on to meet its objectives are:</p> <p>(a) the ability to investigate and exploit new and existing markets for the CFOAM products;</p> <p>(b) the generation of sales of the CFOAM products;</p> <p>(c) de-bottlenecking the process of CFOAM production and producing sufficient inventory for sale; and</p>   | Section 6.6         |



| Item   | Summary  | Further information |
|--|--|---------------------|
|  | (d) attracting and retaining key personnel as the commercialisation strategy proceeds.   |                     |
| <b>C. Key Investment Highlights and Risks</b>          |  |                     |
| What are the key investment highlights?                | <p>The Directors are of the view that an investment in the Company provides the following non-exclusive list of key highlights:</p> <ul style="list-style-type: none"> <li>(a) the Acquisition represents an investment opportunity for the Company to commercialise the CFOAM products;</li> <li>(b) the Acquisition will provide the opportunity to increase the value of the Company;</li> <li>(c) the Directors and management team have extensive experience and a track record with technology companies; and</li> <li>(d) the Company may be able to raise further funds at higher prices by way of share equity as a result of the Acquisition.</li> </ul>   | Section 6.2         |
| What are the key risks of an investment in the Company | <p>The business, assets and operations of the Company, including after Completion, are subject to certain risk factors that have the potential to influence the operating and financial performance of the Company in the future. These risks can impact on the value of an investment in the Securities of the Company.</p> <p>The Board aims to manage these risks by carefully planning its activities and implementing risk control measures. Some of the risks are, however, highly unpredictable and the extent to which the Board can effectively manage them is limited.</p> <p>Based on the information available, a summary of the key risk factors affecting the Company are as follows:</p> <ul style="list-style-type: none"> <li>(a) <b>Ability to Commercialise Production:</b> The Company plans to provide the necessary capital to increase output, improve</li> </ul> | Section 7           |

| Item | Summary   | Further information |
|------|---|---------------------|
|      | <p>efficiencies, reduce operating costs and expand the manufacturing sales team to significantly increase sales. The Company has identified capital expenditure improvements in the business model to debottleneck production; increase output capacity and lower costs. The Company has provided the capital expenditure based on estimates and these costs may be higher and take longer to implement which may delay and/or change the business model.</p> <p>(b) <b>Committee on Foreign Investment in the United States (CFIUS):</b> Carbon Innovations and Touchstone Research lodged a notice for review under CFIUS on 6 June 2016. CFIUS will firstly determine whether the foreign investment is a “covered” transaction (i.e. whether the completion of the transaction results in foreign control of any person engaged in interstate commerce in the US). If so, CFIUS will then consider whether the transaction raises potential US national security or critical infrastructure implications. If so determined, then it may block the transaction or request the parties to take certain steps to mitigate such risk.</p> <p>(c) <b>Commercialisation of CFOAM:</b> There is a risk that if the Company’s commercialisation strategy does not develop as planned, the failure to successfully develop and commercialise CFOAM could lead to a requirement to raise additional capital, loss of opportunities and may adversely impact on the Company’s operating results and financial position.</p> <p>(d) <b>Additional Requirements for Capital to Continue Commercialisation Strategy:</b> As</p> |                     |

| Item | Summary  | Further information |
|------|--|---------------------|
|      | <p>the Company's commercialisation strategy progresses it will need to increase its production to cater for growth and to do so, the Company may require financing in addition to amounts raised under the Public Offer. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its production.</p> <p>(e) <b>Research and Development Activities:</b> The Company can make no representation that any of its research into the further development of CFOAM will be successful, that any development milestones will be achieved, or that CFOAM will be developed into products that are commercially exploitable.</p> <p>(f) <b>Intellectual Property Risks:</b> The Company's interest in the CFOAM technology is currently protected by a number of US patents. Whilst this will provide the Company with protection, the granting of a patent does not guarantee that the rights of others are not infringed or that competitors will not develop competing technologies that circumvent such patents. The Company's success depends, in part, on its ability to maintain patents, maintain trade secret protection and operate without infringing the proprietary rights of third parties.</p> <p>(g) <b>Uncertainty of Future Profitability:</b> The Company's ability to operate profitably in the future will depend in part on its ability to successfully commercialise its products and grow sales of CFOAM via an increase in market share in the aerospace tooling market and</p> |                     |

| Item | Summary   | Further information |
|------|---|---------------------|
|      | <p>expanding into new markets and identifying additional end uses. Other factors include the Company's ability to manage its costs, execute its development and growth strategies, economic conditions in the markets in which it operates, competitive factors and regulatory developments. Accordingly future profitability is uncertain.</p> <p>(h) <b>Failure to Meet Regulatory Standards:</b> The Company's operations could be materially adversely affected if it is unable to obtain or maintain a licence or approval which it is required to obtain or maintain in order to conduct its operations; it breaches any applicable legislative or regulatory requirement; it is required to comply with new or additional legislative or regulatory requirements; or the costs of complying with applicable legislation and regulations increase.</p> <p>(i) <b>Staff Risk:</b> There is a risk that, where there is a turnover of development staff who have knowledge of the technology and business, that knowledge will be lost in the event that those staff resign or retire. This involves the risk that those staff will have information in respect of the Company's intellectual property which has a commercial value to the Company as well as an opportunity cost for replacement of those staff and subsequent training.</p> <p>For further information on these key risks and additional specific risks associated with the contemplated Acquisition please refer to Sections 7.2 and 7.3. For other general investment risks, please refer to Section 7.4.</p> |                     |

| Item   | Summary   | Further information     |
|--|---|-------------------------|
| <b>D. Directors and Key Management Personnel</b>                   |   |                         |
| Who are the Directors and Key Management Personnel?                | <p>The Board will comprise the following upon Completion:</p> <p>(a) Gary Steinepreis – Non-Executive Chairman;</p> <p>(b) Michael Placha – Managing Director; and</p> <p>(c) Toby Chandler – Non-Executive Director.</p> <p>Key Management Personnel include Daniel Placha – Chief Operating Officer.</p> <p>The profiles of each of the Directors and Key Management Personnel are set out in Section 4.10. Details of the personal interests of each of the Directors are set out in Section 4.12.</p> | Sections 4.10 and 4.12  |
| <b>E. Financial Information</b>                                    |   |                         |
| How have the Company and Group performed over the past 12 months?  | The audited statements of financial position for the Company and Group as at 20 May 2016 are set out in the Investigating Accountant's Report in Section 8.   | Section 8               |
| What is the financial outlook for the Company?                     | The reviewed pro-forma statement of financial position for the Company as at 20 May 2016 (which assumes Completion occurs) is set out in the Investigating Accountant's Report in Section 8.  | Section 8               |
| How will the Company fund the activities?                          | The funding for the Company's short to medium term activities will be generated from a combination of the money raised under the Public Offer, the existing cash reserves and the commercialisation strategy. The Board believes that these funds will provide the Company with sufficient working capital at anticipated expenditure levels to achieve its objectives set out in this Prospectus.  | Section 4.4             |
| <b>F. Offers</b>   |   |                         |
| What is being offered and what is the purpose of the Public Offer? | The Public Offer is an offer of up to 45,000,000 Shares at an issue price of \$0.20 per Share to raise up to \$9,000,000 with a minimum subscription of   | Sections 4.3, 4.4 and 6 |

| Item   | Summary  | Further information   |
|--|--|-----------------------|
|  | <p>\$5,000,000. The Public Offer is not underwritten.</p> <p>The purpose of the Public Offer is to position the Company to seek to achieve the objectives set out in Section 6 and to facilitate an application by the Company for admission of the Company to the official list of ASX.</p> <p>On completion of the minimum raising of \$5,000,000 under the Public Offer, the Board believes the Company will have sufficient working capital to achieve these objectives.</p> <p>The Company intends to apply funds raised from the Public Offer, together with existing cash reserves following admission of the Company to quotation on the official list of ASX in the manner set out in the table in Section 4.4.</p> <p>The Public Offer is open to retail investors and sophisticated investors in Australia and New Zealand.</p> |                       |
| Is the Public Offer underwritten?  | The Public Offer is not underwritten.  | Section 5.10          |
| Who are the managers to the Public Offer?                                | The Company has appointed Jett Capital as manager to the Public Offer. Jett Capital will receive a selling fee of 5% of the total amount raised by Jett Capital under the Public Offer and 750,000 Shares if Jett Capital successfully provides a minimum of 200 ASX accepted shareholder investor names with the assistance of Peak Asset Management who may receive part of Jett Capital's selling fees.   | Sections 5.1 and 11.7 |
| What is being offered and what are the purposes of the Secondary Offers? | <p>This Prospectus also contains an offer of:</p> <ul style="list-style-type: none"> <li>(a) 9,187,500 Shares to Touchstone Research and/or Brian Joseph (or their nominee(s));</li> <li>(b) up to 1,800,000 Shares to the Advisors (or their nominee(s)); and</li> <li>(c) up to 1,750,000 Options to Daniel Placha (or his nominee(s)).</li> </ul> <p>The purposes of the Secondary Offers</p>   | Section 5.2           |

| Item  | Summary   | Further information    |
|---|---|------------------------|
|   | <p>are to remove the need for an additional disclosure document to be issued upon the sale of any Securities that are issued under the Secondary Offers.</p> <p>The Secondary Offers are made to Touchstone Research and/or Brian Joseph, the Advisors and Daniel Placha (or their nominees). You should not complete an Application Form in relation to the Secondary Offers unless specifically directed to do so by the Company.</p>   |                        |
| What will the Company's capital structure look like after completion of the Offers and the Acquisition? | The Company's capital structure on a post-Completion basis is set out in Section 4.5.   | Section 4.5            |
| Will I be guaranteed a minimum allocation under the Public Offer?                                       | No, the Company is not in a position to guarantee a minimum application of Shares under the Public Offer.   | Section 5.4            |
| What are the key terms of the Securities offered under the Offers?                                      | <p>A summary of the material rights and liabilities attaching to the Shares offered under the Public Offer, the Consideration Offer and the Advisor Offer are set out in Section 12.2.</p> <p>The terms and conditions of the Options offered under the Manager Offer are set out in Section 12.6.</p>  | Sections 12.2 and 12.6 |
| Will any Securities be subject to escrow?   | <p>Subject to the Company complying with Chapters 1 and 2 of the ASX Listing Rules and completing the Offers, certain Securities on issue may be classified by ASX as restricted securities and will be required to be held in escrow for up to 24 months from the date of Official Quotation.</p> <p>During the period in which these Securities are prohibited from being transferred, trading in Shares may be less liquid which may impact on the ability of a Shareholder to dispose of his or her Shares in a timely manner.</p> <p>The Company will announce to ASX full details (quantity and duration) of the Securities required to be held in escrow</p> | Section 4.7            |

| Item  | Summary  | Further information |
|---|--|---------------------|
|   | prior to the Shares commencing trading on ASX.   |                     |
| Will the Shares be quoted?  | The Company will make an application to ASX for quotation of all Shares to be issued under the Public Offer no later than 7 days after the date of this Prospectus.  | Section 5.5         |
| What are the key dates of the Offers?                                   | The key dates of the Offers are set out in the indicative timetable in Section 4.2.  | Section 4.2         |
| What is the minimum investment size under the Public Offer?             | Applications under the Public Offer must be for a minimum of \$2,000 worth of Shares (10,000 Shares) and thereafter, in multiples of \$200 worth of Shares (1,000 Shares).   | Section 5.4         |
| Are there any conditions to the Public Offer?                           | The Offers are conditional on:<br>(a) the Company receiving valid application for at least \$5,000,000 pursuant to the Public Offer; and<br>(b) ASX conditional approval to admit the Shares to Official Quotation.  | Section 2.4         |
| <b>G. Use of proceeds</b>   |  |                     |
| How will the proceeds of the Public Offer be used?                      | Together with existing cash reserves of the Company, the Public Offer proceeds will be used to:<br>(a) fund general administration and sales and marketing expenditure;<br>(b) de-bottleneck the process of CFOAM production and produce sufficient inventory for sale;<br>(c) pay the costs associated with the Acquisition; and<br>(d) contribute to the working capital of the Company. | Section 4.4         |
| <b>H. Additional information</b>  |  |                     |
| Is there any brokerage, commission or stamp duty payable by applicants? | No brokerage, commission or duty is payable by Applicants on the acquisition of Securities under the Offers.   | Section 4.8         |



| Item  | Summary   | Further information |
|---|---|---------------------|
| What are the tax implications of investing in Securities? | <p>Shares may be subject to Australian tax on dividends and possibly capital gains tax on a future disposal of Shares issued under this Prospectus.</p> <p>The tax consequences of any investment in Securities will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to subscribe for Securities offered under this Prospectus.</p> | Section 4.8         |
| Where can I find more information?                        | <ul style="list-style-type: none"> <li>• By speaking to your sharebroker, solicitor, accountant or other independent professional adviser.</li> <li>• By contacting the Company Secretary on +61 8 9420 9300.</li> </ul>  |                     |

## 4.2 Indicative timetable\*

|                                       |              |
|---------------------------------------|--------------|
| Lodgement of Prospectus with the ASIC | 21 June 2016 |
| Opening Date of the Offers            | 27 June 2016 |
| Closing Date of the Offers            | 15 July 2016 |
| Issue of Securities under the Offers  | 20 July 2016 |
| Completion of the Acquisition         | 20 July 2016 |
| Despatch of holding statements        | 25 July 2016 |
| Expected date for quotation on ASX    | 29 July 2016 |

*\* The above dates are indicative only and may change without notice. The Company reserves the right to extend the Closing Date or close the Offers early without notice.*

## 4.3 Purpose of the Offers

The purpose of the Offers is to:

- facilitate an application by the Company for admission of the Company to the official list of ASX;
- position the Company to seek to achieve the objectives set out in Section 6; and
- remove the need for additional disclosure to be issued upon the sale of any Shares that are issued under the Public Offer by retail investors or the sale of Securities issued under the Secondary Offers.

#### 4.4 Use of Funds

The Company intends to apply funds raised from the Public Offer, together with existing cash reserves, following admission of the Company to the official list of ASX as follows:

| Funds available  | Minimum Subscription (\$) (\$5,000,000) | Percentage of Funds | Full Subscription (\$) (\$9,000,000) | Percentage of Funds |
|--|---|---------------------|--------------------------------------|---------------------|
| Existing cash reserves including funds held in escrow account for acquisition <sup>1</sup> | 844,501                                 | 14.4%               | 844,501                              | 8.6%                |
| Funds raised from the Public Offer   | 5,000,000                               | 85.6%               | 9,000,000                            | 91.4%               |
| <b>Total</b>   | <b>5,844,501</b>                        | <b>100.0%</b>       | <b>9,844,501</b>                     | <b>100.0%</b>       |
| <b>Allocation of funds</b>   |   |                     |                                      |                     |
| Expenses of the Offers <sup>2</sup>  | 370,000                                 | 6.3%                | 415,000                              | 4.2%                |
| Capital raising fees   | 250,000                                 | 4.3%                | 450,000                              | 4.6%                |
| Settlement of Acquisition – US\$2,200,000  | 3,055,556                               | 52.3%               | 3,055,556                            | 31.1%               |
| Process de-bottleneck and upgrades <sup>3</sup>  | 583,333                                 | 10.0%               | 583,333                              | 5.9%                |
| Sales, general administration costs and working capital <sup>4</sup>                       | 1,585,612                               | 27.1%               | 5,340,612                            | 54.2%               |
| <b>Total</b>   | <b>5,844,501</b>                        | <b>100.0%</b>       | <b>9,844,501</b>                     | <b>100.0%</b>       |

A US\$/£ rate of 0.72 has been adopted in this table.

#### Notes:

1. Refer to the Investigating Accountant's Report set out in section 8 of this Prospectus for further details on the audited financial reports. A US\$200,000 escrow deposit has been lodged in an account as part of the Acquisition.
2. Refer to section 12.10 of this Prospectus for further details.
3. Please refer below for a more detailed breakdown.

| Item                            | (\$)           |
|---------------------------------|----------------|
| Coal Sizing & Handling Upgrades | 347,222        |
| Active Cooling                  | 138,888        |
| Billet sizing                   | 97,223         |
| <b>TOTAL</b>                    | <b>583,333</b> |

4. Sales and marketing, general administration includes salaries, rent and administration costs and working capital which represents unallocated funds that are intended to be applied towards the general business costs and unanticipated expenses.

In the event the Company raises more than the minimum subscription of \$5,000,000, the additional funds raised will be applied towards sales and general administration costs to fast-track and implement the commercialisation strategy. This may include undertaking additional capital expenditure to expand the facilities and also provide funds in reserve to settle part of the deferred consideration which is due and payable once further business performance hurdles have been achieved. On completion of the minimum subscription of the Public Offer, the Board believes the Company will have sufficient working capital to achieve these objectives.

The above table is a statement of current intentions as of the date of this Prospectus. As with any budget, intervening events (including commercialisation success or failure) and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way funds are applied on this basis.

#### 4.5 Capital Structure

The capital structure of the Company following completion of the Offers (assuming full subscription) is summarised below:

|  | Shares                 | Options                | Performance Rights     |
|--|------------------------|------------------------|------------------------|
| Shares currently on issue <sup>1</sup>   | 37,512,500             | Nil                    | Nil                    |
| Shares to be issued to Applicants under the Public Offer   | 45,000,000             | Nil                    | Nil                    |
| Shares to be issued to Advisors under the Advisor Offer  | 1,800,000 <sup>2</sup> | Nil                    | Nil                    |
| Shares to be issued to Touchstone Research and/or Brian Joseph as part consideration for the Acquisition | 9,187,500 <sup>3</sup> | Nil                    | Nil                    |
| Performance Rights to be issued to Daniel Placha   | Nil                    | Nil                    | 1,250,000 <sup>4</sup> |
| Options to be issued to Daniel Placha under the Manager Offer  | Nil                    | 1,750,000 <sup>5</sup> | Nil                    |
| <b>Capital structure post Acquisition</b>  | <b>93,500,000</b>      | <b>1,750,000</b>       | <b>1,250,000</b>       |

**Notes:**

1. The Shares currently on issue were issued on or before 20 May 2016 at various issue prices to seed capital investors and founders to fund Acquisition costs, the listing costs and initial working capital requirements of the Company. These Shares were issued at a discount to the issue price of the Shares offered pursuant to the Public Offer to reflect the increased risk associated with an investment in the Company at the time of issue of the seed capital. The rights attaching to the Shares are summarised in section 12.2 of this Prospectus.
2. The terms and conditions of Shares to be issued under the Advisor Offer are set out in section 12.2 of this Prospectus.
3. Refer to section 11.1 of this Prospectus for more information. The terms and conditions of the Shares to be issued under the Consideration Offer are set out in section 12.2 of this Prospectus.
4. The Performance Rights are proposed to be issued to Daniel Placha pursuant to the executive services agreement between him and Carbon Innovations, a summary of which is set out in Section 11.6. The terms and conditions of the Performance Rights are set out in section 12.4 of this Prospectus.
5. The Options are proposed to be issued to Daniel Placha pursuant to the executive services agreement between him and Carbon Innovations, a summary of which is set out in Section 11.6. The terms and conditions of the Options are set out in section 12.6 of this Prospectus.

The capital structure of the Company following completion of the Offers (assuming minimum subscription) is summarised below:

|  | Shares            | Options          | Performance Rights |
|--|-------------------|------------------|--------------------|
| Shares currently on issue  | 37,512,500        | Nil              | Nil                |
| Shares to be issued to Applicants under the Public Offer   | 25,000,000        | Nil              | Nil                |
| Shares to be issued to Advisors under the Advisor Offer  | 1,800,000         | Nil              | Nil                |
| Shares to be issued to Touchstone Research and/or Brian Joseph as part consideration for the Acquisition | 9,187,500         | Nil              | Nil                |
| Performance Rights to be issued to Daniel Placha   | Nil               | Nil              | 1,250,000          |
| Options to be issued to Daniel Placha under the Manager Offer  | Nil               | 1,750,000        | Nil                |
| <b>Capital structure post Acquisition</b>  | <b>73,500,000</b> | <b>1,750,000</b> | <b>1,250,000</b>   |

#### 4.6 Substantial Shareholders

Those Shareholders holding 5% or more of the Shares on issue both as at the date of this Prospectus and on completion of the Offers (assuming full subscription) are set out in the respective tables below.

***As at the date of the Prospectus***

| Shareholder  | Shares     | %      |
|--|------------|--------|
| Michael Frank Placha   | 12,000,000 | 31.99% |
| Alastair Warren Smith  | 6,131,250  | 16.34% |
| Carl Coward  | 5,881,250  | 15.68% |
| Toby Chandler  | 4,350,000  | 11.60% |
| Leisurewest Consulting Pty Ltd <Leisure West Trust Account> <sup>1</sup> | 2,500,000  | 6.66%  |

**Notes:**

1. LeisureWest Consulting Pty Ltd (ACN 060 235 501) <LeisureWest Trust Account> is controlled by Gary Steinepreis, a Director.

***On completion of the Offers***

| Shareholder                      | Shares     | %      |
|----------------------------------|------------|--------|
| Michael Frank Placha             | 12,000,000 | 12.83% |
| Touchstone Research <sup>1</sup> | 9,187,500  | 9.83%  |
| Alastair Warren Smith            | 6,131,250  | 6.56%  |
| Carl Coward                      | 5,881,250  | 6.29%  |

**Notes:**

1. Touchstone Research and/or Brian Joseph will receive 9,187,500 Shares as part consideration for the Acquisition. Please refer to section 11.1 of this Prospectus for further information.

The Company will announce to the ASX details of its top 20 Shareholders (following completion of the Offers) prior to the Shares commencing trading on ASX.

## **4.7 Restricted Securities**

Subject to the Company being admitted to the Official List, certain Securities on issue prior to the Offers will be classified by ASX as restricted securities and will be required to be held in escrow for up to 24 months from the date of Official Quotation.

During the period in which these Securities are prohibited from being transferred, trading in Shares may be less liquid which may impact on the ability of a Shareholder to dispose of his or her Shares in a timely manner.

It is estimated that up to 48,500,000 Shares may be subject to escrow as follows:

- (a) 30,862,500 Shares for 24 months from the date of official quotation (primarily held by Directors and initial seed capitalists and substantial Shareholders);
- (b) 9,187,500 Shares for 24 months from the date of official quotation held by Touchstone Research and/or Brian Joseph as part consideration for the Acquisition;

- (c) 1,800,000 Shares for 24 months from the date of official quotation under the Advisor Offer; and
- (d) 6,650,000 Shares for 12 months from the date of allotment of the seed capital on 20 May 2016 (primarily held by unrelated Shareholders) which will be reduced by the ASX cash-formula rules.

All of the Performance Rights and Options on issue are likely to be escrowed for 24 months from the date of Official Quotation.

The Company will announce to the ASX full details (quantity and duration) of the Securities required to be held in escrow prior to the Shares commencing trading on ASX.

#### **4.8 Taxation**

The acquisition and disposal of Securities will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Securities from a taxation viewpoint and generally.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of subscribing for Securities under this Prospectus.

No brokerage, commission or duty is payable by Applicants on the acquisition of Securities under the Offers.

#### **4.9 Dividend Policy**

The Company does not yet have a dividend policy and has no immediate intention to declare or distribute dividends.

Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend on the availability of distributable earnings and operating results and financial condition of the Company, future capital requirements and general business and other factors considered relevant by the Directors. No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by the Company.

#### **4.10 Directors and Key Management Personnel**

##### **Michael Placha | Managing Director**

Mr Placha has worked on various international projects throughout his 35-year career in Australia, Canada, Indonesia, China, Russia, Germany and Italy. Mr Placha earned his Bachelor of Science degree in extractive metallurgy from The Pennsylvania State University.

Mr Placha was Senior Vice President of Signal Peak Energy/Global Rail Group from 2006 until 2010 and was responsible for the financing and development of a \$350 million underground longwall mine in Montana.

Mr Placha led the design and construction of a 36-mile rail spur and 15MTPY coal handling, processing and loadout facilities.

From 2004 until 2006 as President of Sedgman Canada, Mr Placha was responsible for the design and construction of two metallurgical coal facilities in British Columbia, Canada.

Prior to this, Mr Placha spent 16 years with Cyprus Coal and its successor companies working in management, operations, engineering and sales and marketing.

Mr Placha is also currently a director of ASX-listed New Horizon Coal Ltd.

### **Gary Steinepreis | Non-Executive Chairman**

Mr Steinepreis holds a Bachelor of Commerce degree from the University of Western Australia and is a Chartered Accountant. He provides corporate, management and accounting advice to a number of companies involved in the resource, technology and leisure industries. Mr Steinepreis is also currently a director of AVZ Minerals Limited and New Horizon Coal Ltd.

Mr Steinepreis, in his role as a director of Ascent Capital, has previously been appointed as a director of a number of companies which have entered into external administration. In these instances, Mr Steinepreis was appointed to assist in the restructure and recapitalisation processes.

Mr Steinepreis was a director of Central Norseman Gold Corporation Pty Ltd which is a subsidiary of Norseman Gold Plc. An administrator was appointed to Central Norseman Gold Corporation Pty Ltd in October 2012 to undertake a recapitalisation and restructure of the business due to lack of working capital and loss making operations. A deed of company arrangement for Central Norseman Gold Corporation Pty Ltd was settled in May 2013 and the entity is no longer in administration. Mr Steinepreis resigned as a director of Central Norseman Gold Pty Ltd and Norseman Gold plc on 9 March 2016.

### **Toby Chandler | Non-Executive Director**

Mr Chandler is the managing director of ASX listed, Structural Monitoring Systems Plc.

Mr Chandler is Co-Founder and Chief Investment Officer of SEAL Capital Ltd, a global macro hedge fund investing in diverse global markets and financial instruments. Before forming SEAL Capital, Mr Chandler was a Partner and Portfolio Manager with private equity and macro hedge fund, Seagate Global Advisors, Inc.

In prior roles, Mr Chandler was a Managing Director with Morgan Stanley Inc, New York, where he ran the bank's Specialist Hedge Fund Desk servicing key institutional counterparties in an array of financial products, and global markets. Mr Chandler has also held several other senior bank positions including Managing Director and Head of Global Fixed Income Distribution with HSBC Securities (USA) NA, New York; other previous Executive Director positions with Morgan Stanley Inc and Morgan Stanley International Plc, London, as Head of Emerging Markets and Global Fixed Income Distribution; and Vice President with Citigroup NA, New York and Citigroup Australia. He received his Bachelor of Commerce in Finance from the University of Western Australia and his Masters in Applied Finance and Investment from the Securities Institute of Australia.

## Daniel Placha | Chief Operating Officer

Daniel Placha has over thirty years' experience in the engineering and construction sector.

Mr Placha founded Sedgman's US operations (currently DRA Taggart) and in 1993 grew the business to a peak of 1,000 employees and \$400m in annual revenue.

Mr Placha is the current chief operating officer of DRA, responsible for delivery of EPC projects and management of operations.

### 4.11 Corporate Governance

To the extent applicable, in light of the Company's size and nature, the Company has adopted *The Corporate Governance Principles and Recommendations (3rd Edition)* as published by ASX Corporate Governance Council (**Recommendations**).

The Company's main corporate governance policies and practices as at the date of this Prospectus are outlined in section 10.3 of this Prospectus and the Company's compliance and departures from the Recommendations are set out in section 10.18 of this Prospectus.

In addition, the Company's full Corporate Governance Plan is available from the Company's website [www.cfoam.com](http://www.cfoam.com).

### 4.12 Disclosure of Interests

The Company has paid no remuneration to its Board since incorporation to the date of this Prospectus and no remuneration will be paid or accrue until such time as the Company is admitted to the Official List.

For each of the Directors, the proposed annual remuneration for the financial year following the Company being admitted to the Official List together with the relevant interest of each of the Directors in the securities of the Company as at the date of this Prospectus is set out in the table below.

| Director         | Remuneration<br>(p.a.) | Shares                 | Options | Performance<br>Rights |
|------------------|------------------------|------------------------|---------|-----------------------|
| Gary Steinepreis | \$48,000 <sup>2</sup>  | 2,500,000 <sup>1</sup> | Nil     | Nil                   |
| Michael Placha   | US\$200,000            | 12,000,000             | Nil     | Nil                   |
| Toby Chandler    | \$48,000               | 4,350,000              | Nil     | Nil                   |

#### Notes:

1. LeisureWest Consulting Pty Ltd (ACN 060 235 501) <LeisureWest Trust Account> is controlled by Gary Steinepreis, a Director.
2. Ascent Capital Holdings Pty Ltd, an entity associated with Gary Steinepreis, is providing services with respect to this Prospectus and will be paid a fee of \$75,000 (plus GST) upon successful completion of the Offers.

### 4.13 Agreements with Directors or Related Parties

The Company's policy in respect of related party arrangements is:



- (a) a Director with a material personal interest in a matter is required to give notice to the other Directors before such a matter is considered by the Board; and
- (b) for the Board to consider such a matter, the Director who has a material personal interest is not present while the matter is being considered at the meeting and does not vote on the matter.

### ***Ascent Services Agreement***

The Company has entered into a services agreement with Ascent Capital Holdings Pty Ltd (**Ascent**), an entity associated with non-executive Director, Gary Steinepreis. Pursuant to the agreement, Ascent is providing prospectus management services for a fixed fee of \$75,000 plus GST.

### ***Executive Services Agreement***

Carbon Innovations and Michael Placha have entered into an executive services agreement (**Executive Services Agreement**) pursuant to which Michael Placha is appointed as Chief Executive Officer of Carbon Innovations. The key terms and conditions of the Executive Services Agreement are as follows:

- (a) **(Term):** Mr Placha's appointment will commence on the first day of that month when Carbon Innovations is conditionally admitted to the official list of the ASX and will continue until validly terminated in accordance with the terms of the Executive Services Agreement;
- (b) **(Termination):** The Executive Services Agreement may be terminated in the following manner and in accordance with US labour law:
  - (i) by Carbon Innovations on not less than one month's notice:
    - (A) if Mr Placha is unable to perform his duties due to incapacitation for two consecutive months' or any periods aggregating more than two months in any 12 month period during the term of his appointment; or
    - (B) if Mr Placha becomes of unsound mind or under the control of any committee or officer under law relating to mental health;
  - (ii) by Carbon Innovations on one month's notice in the event that Mr Placha:
    - (A) commits any serious or persistent breach of the Executive Services Agreement and the breach is not remedied within 14 days of the receipt of written notice from the Company;
    - (B) is absent or demonstrates incompetence with regards to the performance of his duties;
    - (C) commits or becomes guilty of any gross misconduct; or
    - (D) refuses or neglects to comply with any lawful reasonable direction or order given by Carbon Innovations and has failed to rectify to the satisfaction

of Carbon Innovations within 21 business days of receipt of prior notice;

- (iii) by either party without cause with three months' notice to the other party, or in the case of Carbon Innovations, immediately with payment in lieu of notice;
  - (iv) by either party following material breach of the Executive Services Agreement; and
  - (v) by Mr Placha if a change of control event occurs, and at any time during the 12 month period following such change of control, Mr Placha resigns from his employment for good reason, he shall be entitled to a payment equal to 12 months;
- (c) **(Remuneration):** US\$200,000 per annum;
- (d) **(Bonus):** Carbon Innovations may pay Mr Placha a performance-based bonus at any time during the term of his appointment; and
- (e) **(Expenses):** Carbon Innovations will reimburse Mr Placha for all reasonable expenses incurred in the performance of his duties in connection with the business of Carbon Innovations.

The Executive Services Agreement also contains various other terms and conditions that are considered standard for an agreement of this nature.

#### ***Non-Executive Director Appointment Letters – Messrs Toby Chandler and Gary Steinepreis***

The Company has entered into non-executive letters of appointment with each of the non-executive Directors, Messrs Toby Chandler and Gary Steinepreis (**Non-Executive Agreements**). A summary of the key terms of the Non-Executive Agreements are as follows:

- (a) **(Fees):** directors fees of \$48,000 per annum are payable by the Company to each non-executive Director;
- (b) **(Additional Executive Duties):** work undertaken on additional executive duties will be paid at a commercial rate. This does not form part of the non-executive director fees; and
- (c) **(Term):** the non-executive Directors' appointment is subject to provisions of the Constitution and the ASX Listing Rules relating to retirement by rotation and re-election of directors and will automatically cease at the end of any meeting at which the directors are not re-elected as a director by Shareholders.

The Non-Executive Agreements otherwise contains terms and conditions that are considered standard for agreements of this nature.

#### ***Deeds of indemnity, insurance and access***

The Company has entered into or will enter into a deed of indemnity, insurance and access with each of its Directors. Under these deeds, the Company agrees to indemnify each officer to the extent permitted by the Corporations Act against any liability arising as a result of the officer acting as an officer of the Company. The Company is also required to maintain insurance policies for the

benefit of the relevant officer and must also allow the officers to inspect board papers in certain circumstances.

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## **5. DETAILS OF THE OFFERS**

### **5.1 The Public Offer**

Pursuant to this Prospectus, the Company invites applications for up to 45,000,000 Shares at an issue price of \$0.20 per Share to raise up to \$9,000,000.

The Shares offered under this Prospectus will rank equally with the existing Shares on issue. A summary of the material rights and liabilities attaching to the Shares is set out in Section 12.2.

The allocation of Shares under the Public Offer will be determined by the Board in consultation with Jett Capital and Peak Asset Management in respect of those investors introduced by them to the Company up to a maximum of \$3,000,000 worth of Shares to the Public Offer and otherwise in its absolute discretion.

### **5.2 Secondary Offers**

This Prospectus also includes an offer of:

- (a) Shares to be issued to Touchstone Research and/or Brian Joseph pursuant to the Acquisition under the Consideration Offer;
- (b) Shares to be issued to the Advisors under the Advisor Offer; and
- (c) Options to be issued to Daniel Placha under the Manager Offer.

The terms of the Shares offered under the Consideration Offer and the Advisor Offer are summarised in Section 12.2. The terms of the Options to be offered under the Manager Offer are summarised in Section 12.6.

Each of the Secondary Offers is personal to Touchstone Research and/or Brian Joseph, the Advisors or Daniel Placha (or their nominees), and an Application Form in respect of the Consideration Offer, the Advisor Offer and the Manager Offer will be issued to Touchstone Research and/or Brian Joseph, the Advisors and Daniel Placha (respectively) together with a copy of this Prospectus. As such, Securities offered under those Secondary Offers will be allocated and issued to those parties (or their respective nominees) only. Subject to satisfaction of the Conditions, allocations under the Secondary Offers are guaranteed.

The Securities issued under the Secondary Offers may be subject to escrow under the ASX Listing Rules. Please refer to Section 4.7 for a summary of the likely escrow position.

### **5.3 Minimum subscription**

If the minimum subscription to the Public Offer of \$5,000,000 has not been raised within 4 months after the date of this Prospectus, unless this period is validly extended, the Company will not issue any Securities and will repay all application monies for the Shares within the time prescribed under the Corporations Act, without interest.

### **5.4 Applications**

Applications for Shares under the Public Offer must be made using the Application Form.

Applications for Shares must be for a minimum of 10,000 Shares and thereafter in multiples of 1,000 Shares and payment for the Shares must be made in full at the issue price of \$0.20 per Share.

Completed Application Forms and accompanying cheques, made payable to "**CFOAM LIMITED**" and crossed "Not Negotiable", must be mailed or delivered to the address set out on the Application Form by no later than the Closing Date.

A completed Application Form is an offer by you to the Company to apply for the amount of Shares specified in the Application Form on the terms and conditions set out in this Prospectus (including any supplementary or replacement document) and the Application Form. To the extent permitted by law, an Application by an Applicant is irrevocable.

An Application may be accepted in respect of the full amount, or any amount lower than that specified in the Application Form, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract on allocation of Shares to successful Applicants.

The Company reserves the right to close the Public Offer early.

The Company is not in a position to guarantee a minimum application of Shares under the Public Offer.

## **5.5 ASX listing**

Application for Official Quotation by ASX of the Shares offered under the Public Offer pursuant to this Prospectus will be made within 7 days after the date of this Prospectus.

If the Shares offered under the Public Offer are not admitted to Official Quotation by ASX before the expiration of 3 months after the date of issue of this Prospectus, or such period as validly extended, the Company will not issue any Securities and will repay all application monies for the Shares within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant Official Quotation to the Shares is not to be taken in any way as an indication of the merits of the Company or the Shares now offered for subscription.

## **5.6 Issue**

Subject to the Conditions being satisfied, the issue of Securities offered by this Prospectus will take place as soon as practicable after the Closing Date in accordance with the timetable set out in Section 4.2.

Pending the issue of the Securities or payment of refunds pursuant to this Prospectus, all application monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. The Company, however, will be entitled to retain all interest that accrues on the bank account and each Applicant waives the right to claim interest.

The Directors will determine the recipients of the issued Shares in their sole discretion. The Directors reserve the right to reject any application or to allocate any applicant fewer Shares than the number applied for. Where the number of Shares issued is less than the number applied for, or where no issue is made, surplus application monies will be refunded without any interest to the Applicant as soon as practicable after the Closing Date.

## 5.7 Applicants outside Australia

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

No action has been taken to register or qualify the Securities or otherwise permit a public offering of the Securities the subject of this Prospectus in any jurisdiction outside Australia. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

If you are outside Australia it is your responsibility to obtain all necessary approvals for the issue of the Securities pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by you that all relevant approvals have been obtained.

### ***New Zealand***

The Shares under the Public Offer are not being offered to the public within New Zealand other than to existing shareholders of the Company with registered addresses in New Zealand to whom the offer of these securities is being made in reliance on the transitional provisions of the *Financial Markets Conduct Act 2013 (New Zealand)* and the *Securities Act (Overseas Companies) Exemption Notice 2013 (New Zealand)*.

This Prospectus has been prepared in compliance with Australian law and has not been registered, filed with or approved by any New Zealand regulatory authority. This document is not a product disclosure statement under New Zealand law and is not required to, and may not, contain all the information that a product disclosure statement under New Zealand law is required to contain.

## 5.8 US Investors

The Securities offered under this Prospectus have not been, and will not be, registered under the US Securities Act of 1933, as amended (**US Securities Act**) and may only be offered or sold:

- (a) in the United States, pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act; and
- (b) outside the United States in “offshore transactions” in compliance with Regulation S under the US Securities Act and applicable local law.

## 5.9 Oversubscriptions

No oversubscriptions will be accepted by the Company.

## 5.10 Public Offer is not underwritten

The Public Offer is not underwritten.

## **5.11 Commissions payable**

The Company reserves the right to pay a commission of 5% (exclusive of goods and services tax) of amounts subscribed through any licensed securities dealers or Australian financial services licensee in respect of any valid applications lodged and accepted by the Company and bearing the stamp of the licensed securities dealer or Australian financial services licensee. Payments will be subject to the receipt of a proper tax invoice from the licensed securities dealer or Australian financial services licensee.

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## 6. COMPANY AND PROJECT OVERVIEW

### 6.1 Background

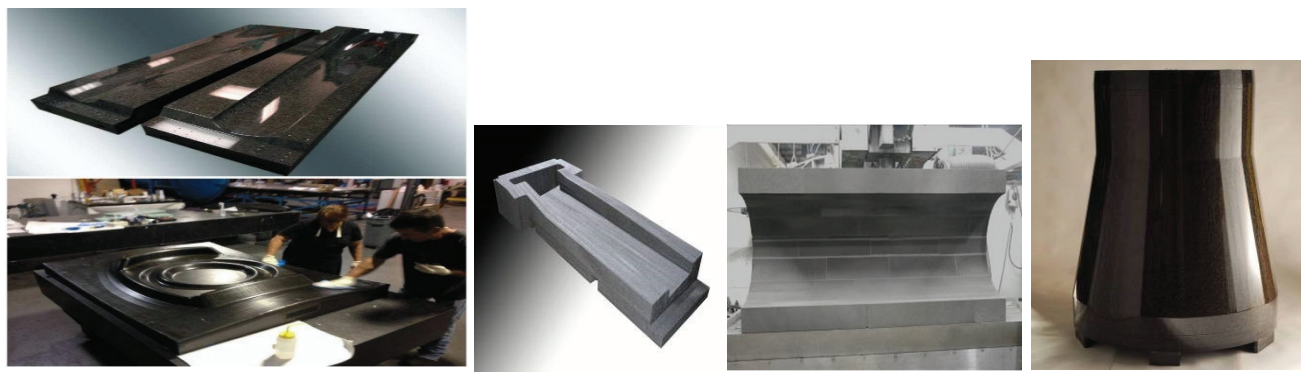
On 29 March 2016, the Company, through its wholly owned US subsidiary, Carbon Innovations entered into an asset purchase agreement (which was subsequently amended) to acquire all production plant equipment, intellectual property (including patents and trademarks), leases, inventory, contracts and infrastructure related to the production of carbon foam “CFOAM®” (**Assets**) from Touchstone Research and Brian Joseph (**Asset Purchase Agreement**). A summary of the material terms of the Asset Purchase Agreement is set out in section 11.1 of this Prospectus.

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.

Touchstone Research has over the last 20 years invested, in its own right and via funding grants, approximately US\$60m in developing CFOAM products and end use applications.

The Board is of the opinion that the opportunity presented under the Acquisition represents an opportunity that is in the best interests of the Company.





# CFOAM – A Brief Overview

## Low Coefficient of Thermal Expansion

CFOAM ideal for aerospace tooling applications using carbon fibre with a CTE at 5.0 ppm/°C

## Strong

Compressive Strength 7.58 - 22.1 MPa (1,100 - 3,200 psi). Can perform as standalone material or bond with other materials.

## Permeable

Open porosity approximately 85 percent.

## Lightweight

CFOAM is lightweight with a density range of 0.32-0.48 g/cc (20-30 lbs/ft³).

## Machinable

CFOAM's uniform density results in consistent machining with reduced waste. CFOAM can be cut into many shapes and configurations.

## Multiple Market Applications

- Aerospace Tooling
- Energy Absorbing
- Defence

## Fire Resistance

CFOAM passes all key fire tests including radiant panel, smoke generator, toxicity, cone colorimeter, fire resistance and room corner tests.

## Affordable

Investment in CFOAM production will result in commercial scale and will be economically manufactured

## 6.2 Key Investment Highlights

The Directors are of the view that an investment in the Company provides the following non-exclusive list of key highlights:

- (a) the Acquisition represents an investment opportunity for the Company to commercialise the CFOAM products;
- (b) the Acquisition will provide the opportunity to increase the value of the Company;
- (c) the Directors and management team have extensive experience and a track record with technology companies; and
- (d) the Company may be able to raise further funds at higher prices by way of share equity as a result of the Acquisition.

## 6.3 Business Model

Development of CFOAM has progressed over the past 20 years from a conceptual idea into a bench/pilot scale process and now CFOAM is ready to transition into a fully commercialised manufacturing process.

On Completion of the Asset Purchase Agreement, the Company will own the Assets, which are everything necessary for the production of CFOAM. As part of the Assets, the Company will own 100% of the intellectual property, inclusive of 27 US patents related to both the manufacture of CFOAM and its end use applications.

The Company's core business will be the manufacturing of carbon foam billets from a bituminous coal feedstock. Initial production and sales of CFOAM billets will initially focus on two product lines – CFOAM<sub>20</sub> (20 lb/ft<sup>3</sup>) and CFOAM<sub>30</sub> (30 lb/ft<sup>3</sup>).

The Company will commercialise the manufacturing process providing management depth and manufacturing and marketing experience to drive the growth of the business and sales of CFOAM while reducing production costs. The Company intends to transition the current business structure relating to CFOAM from a research and development enterprise to a profit oriented, growth centric business. Opportunities within the footprint of the existing manufacturing facility have been identified and are expected to improve efficiencies, increase output and reduce operating costs. The current manufacturing facility is located approximately one hour from Pittsburgh, Pennsylvania near Wheeling, West Virginia. The current site has the capability to expand and grow capacity output to approximately 30,000 ft<sup>3</sup> per annum.



Existing facility located in West Virginia, off interstate 70.

The Company's sales and marketing plans will initially focus on three (3) primary market areas:

- (a) aerospace composite tooling;
- (b) energy absorbing applications; and
- (c) defence related applications.

Key to increasing sales beyond current volumes and existing customers will be a build-up of CFOAM inventory to capture sales opportunities as they become available. As part of the Asset Purchase Agreement, the seller, Touchstone Research, has committed in a Supply Agreement to purchase a minimum of 4,148.15 cubic feet of CFOAM<sub>30</sub> in the first year from Completion. A summary of the material terms of the Supply Agreement is set out in section 11.4 of the Prospectus.

(a) **Aerospace Composite Tooling**

CFOAM's high strength, low thermal expansion coefficient, light weight and lower cost make it ideal for use in aerospace mould tools. Current aerospace customer base includes Northrop Grumman Corporation, Boeing, Orbital ATK, Sikorski San Diego Composites and ACT Aerospace. The funds raised pursuant to the Public Offer will provide the necessary capital to increase output, improve efficiencies, reduce operating costs and professionalise the manufacturing sales team to generate product sales.

(b) **Energy Absorbing Applications**

CFOAM's high compressive strength, light weight/low density and crushability/energy absorbing properties make it ideally suited to energy absorbing applications.

(c) **Defence Related Applications**

Extensive research of CFOAM in defence related applications has been undertaken, and various applications including the following have been identified:

- (i) Navy uptake exhaust stack replacement – the use of CFOAM reduces manufacturing costs and saves weight when compared with the materials used in existing vessel ship exhausts systems; and

- (ii) Missile Defence Agency – the lightweight, low cost CFOAM system provides protection from lightning strikes and atmospheric debris.

## 6.4 CFOAM Manufacturing Scale Up

As outlined above, there are considerable market opportunities for CFOAM. The increasing use of carbon fibre in the aerospace and defence sectors has provided the opportunity for CFOAM to be used for construction of carbon composite mould tooling. There is an opportunity to replace the incumbent materials currently used in aerospace tooling. For dimensionally critical mould tooling applications, CFOAM competes with monolithic graphite and Invar, a high nickel, alloy steel. CFOAM's unique properties set it apart from its competitor materials. Being virtually pure, inorganic carbon, CFOAM shares the same properties as carbon fibre. In addition, CFOAM possesses the same thermal expansion coefficient properties at a significant material cost savings when compared with the incumbent materials currently in use.

### Key Components and Assumptions

#### (a) Engineering and Operations

The target for initial annual production of CFOAM has been set at 10,000 ft<sup>3</sup> per year. This output rate has been previously met by Touchstone Research for monthly interval periods. First year plans include selling 80% or 8,000 ft<sup>3</sup> of this production. The remaining 20% will be inventoried on consignment at key customer locations and locally inventoried at an off-site warehouse location already under lease. A working inventory is critical in capturing tooling orders with a rapid turnaround requirement.

Operating supplies required to produce CFOAM include bituminous coal, liquid nitrogen, natural gas and electric power. The Company has performed an independent coal supply analysis study and confirmed a number of suitable suppliers available. Nitrogen supply is delivered by truck into a bulk supply tank at site. Adequate supplies of natural gas and electric power are also readily available.

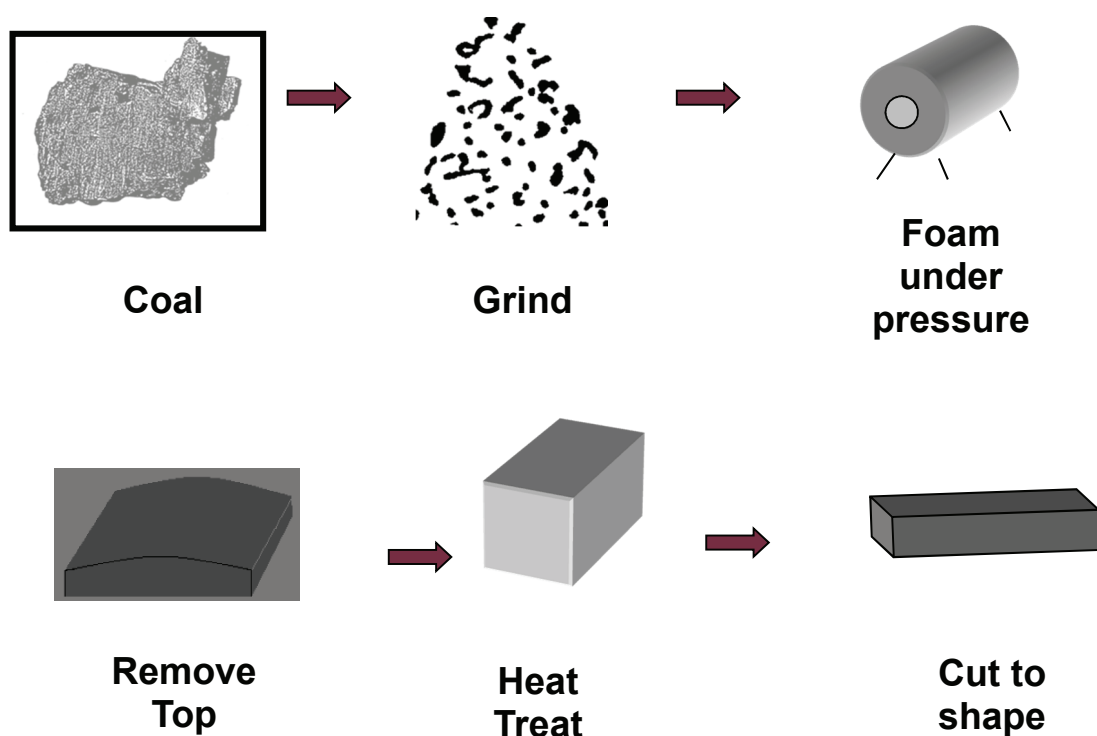
The production process to make CFOAM incorporates a reactor vessel oven to produce "green foam" and an electric kiln oven to calcine or heat treat the green foam producing hardened, carbon foam billets. The manufacture of CFOAM from coal is a patented, proprietary process involving de-volatilising the feedstock under tightly controlled atmospheric, temperature and pressure conditions. Net CFOAM output on one run cycle is 100 ft<sup>3</sup> of carbon foam.

Labour requirements for the first year of production have been identified. Carbon Innovations will make offers of employment to key production personnel currently employed by Touchstone Research. These personnel who have given indication that they will work for the Company possess over 50 years of combined CFOAM experience in research, development and manufacturing. As part of the Asset Purchase Agreement, Touchstone Research will terminate these employees prior to Completion from which time they will be offered employment with Carbon Innovations.

The Public Offer will provide the necessary capital to increase output, improve efficiencies, reduce operating costs and professionalise the manufacturing sales team to significantly increase sales. The Company

has identified capital expenditure improvements in the business model to debottleneck production, increase output capacity and lower costs. Expansion capital has also been identified and the Company will consider adding both autoclave and kiln ovens as market demand grows.

## ***CFOAM<sup>®</sup> 20 & 30 Manufacturing Process***



### **(b) Sales and Marketing**

The Company proposes to grow sales of carbon foam billets in three ways:

- (i) increase market share in the aerospace composite tooling market from its competitors (Invar and monolithic graphite);
- (ii) grow with the aerospace tooling market; and
- (iii) expand sales into new markets.

Our sales and marketing strategy will initially focus on three market areas:

- (i) aerospace composite tooling;
- (ii) energy absorbing applications; and
- (iii) defence related applications.

The sales and marketing plan for CFOAM contemplates two sales channels:

- (i) direct CFOAM sales targeting the existing customer base; and
- (ii) sales representatives employed on a monthly retainer with sales commission.

Michael Placha, who has sales experience in both manufacturing and mining, will lead all sales and marketing efforts. As CFOAM markets expand, the business plan contemplates engaging additional sales and marketing personnel.

(c) **Competition and Markets**

Applications with the strongest technical and market fit for CFOAM include the following:

- (i) aerospace composite tooling;
- (ii) energy absorbing applications;
- (iii) firewall applications;
- (iv) thermal protection systems; and
- (v) EMI shielding and lightning protection.

**Aerospace Composite Tooling**

Competing Materials: Nickel-iron alloys (Invar) and monolithic graphite.

Benefits: Significantly lower cost (5X–10X) compared to Invar and monolithic graphite, identical CTE properties, ease of machining significant weight savings, and can be applied to self-heated tools.

**Energy Absorbing Applications**

Competing Materials: High density foams, rubber materials, plastics, steel and concrete.

Benefits: Lower cost and significant weight savings when compared with steel and concrete applications. Resistant to fire when compared with foams, rubber and plastics.

Markets: Automobile crush zone and fire resistant enclosure for lithium batteries.

**Firewall Applications**

Competing Materials: Steel and concrete.

Benefits: Lower cost and significant weight savings when compared with steel and concrete applications. CFOAM is capable of meeting the “non-combustible” standard when tested in accordance with ISO 1182 as directed by the U.S. Coast Guard and the International Maritime Organization (IMO), which meets underwriter requirements for commercial and maritime applications. ISO-1182 tests materials in a 750°C environment for combustibility with three metrics for passing: combustibility, mass loss, and temperature rise.

## **Thermal Protection Systems**

Competing Materials: Ceramics and super alloys.

Benefits: CFOAM is a very high temperature material and an insulator; it can be used as a mid-density thermal protection system for spacecraft.

## **EMI Shielding and Lightning Protection**

Competing Materials: Mu Metal.

Benefits: Electronically conductive thermal protection system protecting rockets from lightning strikes as they pass through the atmosphere.

### **(d) Regulatory**

CFOAM manufacturing facilities are fully permitted in accordance with the West Virginia Department of Environmental Protection. Permit No. R13-2578B for Plant ID No. 069-00083 is active and in good standing for all air quality management requirements.

Source emissions from both autoclaves and kilns are in compliance with all pollutant standards:

- (i) PM/PM<sub>10</sub>/PM<sub>2.5</sub>
- (ii) SO<sub>2</sub>
- (iii) NO<sub>x</sub>
- (iv) CO

All emissions are controlled with three (3) natural gas fired thermal oxidizers. The raw material processing rate identified in the permit exceeds any future coal demand requirements at this site by a factor of 3.5X.

### **(e) Community – Local and State**

The production of CFOAM utilises powdered bituminous coal as its feedstock. The source coal is produced in the Central Appalachian Region (manufacturing location). Historically, West Virginia is a coal producing and coal focused state. Manufacturing CFOAM from locally mined coal provides for significant support from both the local and state level.

Locally, real estate building leases are with a non-profit development authority named Ohio Valley Industrial and Business Development Corporation. As part of the Asset Purchase Agreement, the Company will sublease designated portions of three buildings for manufacturing, warehouse and office space. The Company will also sublease one kiln, coal loading equipment and foam machining equipment.

At the state level, considerable support and opportunity exists for CFOAM. The West Virginia Economic Development Authority (**WVEDA**) is charged with developing the business prosperity and economic welfare for the State of West Virginia. WVEDA is empowered to borrow money, issue bonds, notes, commercial paper and other debt instruments and



to furnish money, credit, or credit enhancement for the promotion of business development projects. WVEDA provides financial assistance in the form of loans, direct financing and operating leases to industrial development agencies and enterprises for the promotion and retention of new and existing commercial and industrial development. The Company is in discussion with WVEDA regarding the opportunity for the sale-leaseback of certain assets to be acquired by the Company pursuant to the Asset Purchase Agreement.

## **6.5 Intellectual Property**

Pursuant to the Asset Purchase Agreement, the Company will acquire 100% of all intellectual property related to the manufacture and end use of CFOAM as part of the Assets. The Company will own 100% of the intellectual property, inclusive of 27 US patents on Completion. Also included in the Assets to be acquired by the Company are 5 domain names and 3 registered trademarks (CFOAM x 2 and CSTONE).

The Company's intellectual property strategy revolves around the protection of carbon foam and carbon foam-containing materials, methods for making and using carbon foam and carbon foam-containing materials, and methods for making and using applications of carbon foam and carbon foam-containing materials, including protection through patents, confidential information and the use of trademarks.

The Company has taken steps to secure ownership of the patents related to carbon foam and carbon foam-containing materials, methods for making and using carbon foam and carbon foam-containing materials, and methods for making and using applications of carbon foam and carbon foam-containing materials, including, upon Completion, obtaining assignment of patent rights from the seller, Touchstone Research, which, in turn, obtained rights from named inventors where required.

The Company has taken steps to secure ownership of registered trademarks in the United States of America from Touchstone Research upon Completion. Neither the Company nor Touchstone Resources owns any registered trademarks in Australia. Unregistered trademarks may be protected by the common law regimes of passing off and misleading and deceptive conduct under the Australian consumer law.

## **6.6 Key Dependencies**

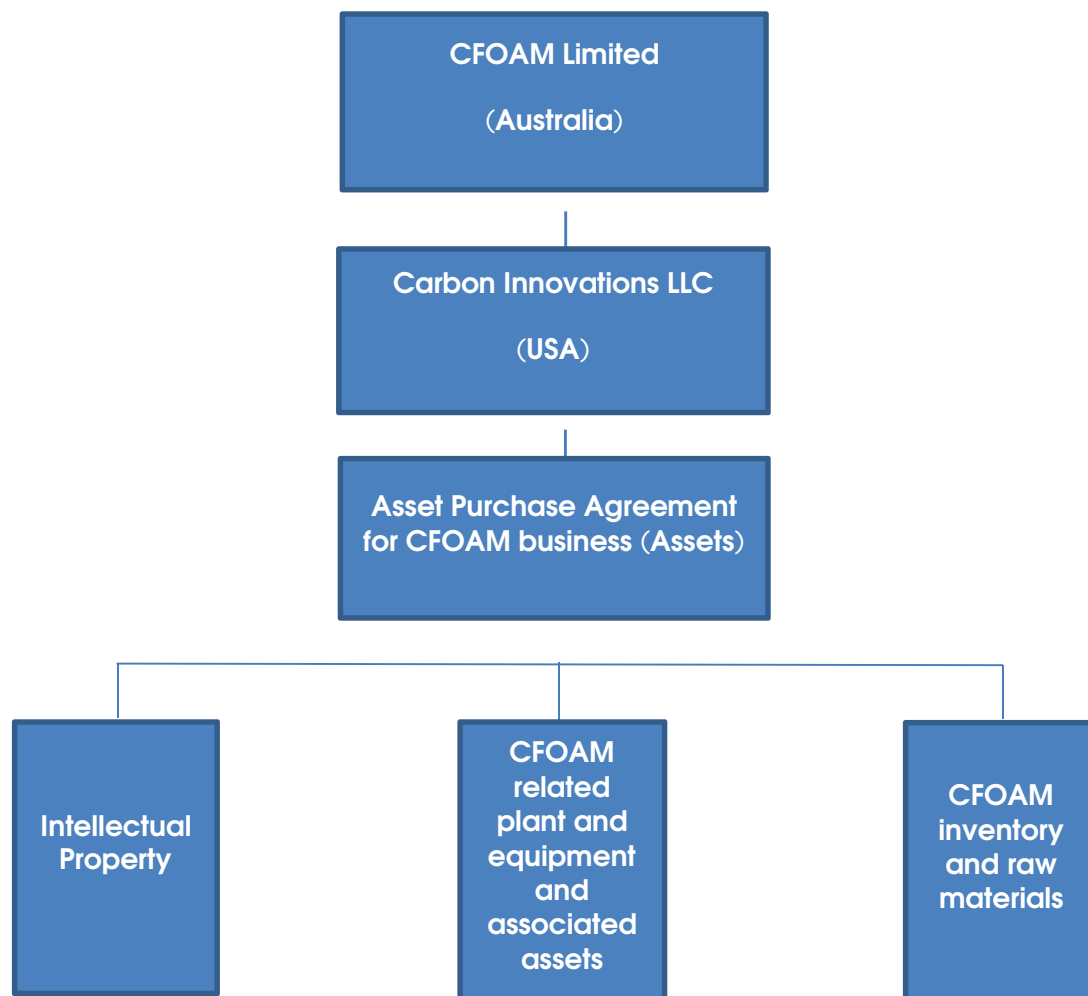
The key factors that the Company will depend on to meet its objectives are:

- (a) the ability to investigate and exploit new and existing markets for the CFOAM products;
- (b) the generation of sales of the CFOAM products;
- (c) de-bottlenecking the process of CFOAM production and producing sufficient inventory for sale; and
- (d) attracting and retaining key personnel as the commercialisation strategy proceeds.



## 6.7 Corporate Structure

On Completion of the Acquisition, the corporate and ownership structure of the Company and Group will be as follows:



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## **7. RISK FACTORS**

### **7.1 Introduction**

The Securities offered under this Prospectus are considered highly speculative. An investment in the Company is not risk free and the Directors strongly recommend potential investors to consider the risk factors described below, together with information contained elsewhere in this Prospectus, before deciding whether to apply for Securities and to consult their professional advisers before deciding whether to apply for Securities pursuant to this Prospectus.

There are specific risks which relate directly to our business. In addition, there are other general risks, many of which are largely beyond the control of the Company and the Directors. The risks identified in this section, or other risk factors, may have a material impact on the financial performance of the Company and the market price of the Securities.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

### **7.2 Company Specific**

#### **(a) Competition and New Technologies**

The industry in which the Company is involved is subject to increasing domestic and global competition which is fast-paced and fast-changing. While the Company will undertake all reasonable due diligence in its business decisions and operations, the Company will have no influence or control over the activities or actions of its competitors, whose activities or actions may positively or negatively affect the operating and financial performance of the Company's projects and business. For instance, new technologies could result in CFOAM not being differentiated from other similar offerings.

The size and financial strength of some of CFOAM's competitors may make it difficult for it to maintain a competitive position in the high-end manufacturing materials market. In particular, the Company's ability to market and sell CFOAM could be adversely affected if it is unable to respond effectively and/or in a timely manner to the strategies and actions of competitors and potential competitors or the entry of new competitors into the market. This may in turn impede the financial condition and rate of growth of the Company.

The key competition risk is in achieving appreciable market share and differentiation from its key competitors.

#### **(b) Ability to Commercialise Production**

The Company plans to provide the necessary capital to increase output, improve efficiencies, reduce operating costs and professionalise the manufacturing sales team to significantly increase sales. The Company has identified capital expenditure improvements in the business model to debottleneck production; increase output capacity and lower costs.

The Company has provided the capital expenditure based on estimates and these costs may be higher and take longer to implement which may delay and/or change the business model. This may impact on

sales and may in turn impede the financial condition and rate of growth of the Company.

(c) **Committee on Foreign Investment in the United States (CFIUS)**

CFIUS is an inter-agency committee of the US government that is authorised to review, investigate and block any transaction or investment that could result in the control of any US businesses or assets by a foreign person that may raise national security concerns, or involve critical infrastructure.

CFIUS has authority to initiate review of almost any foreign investment in a US company or asset that may have an impact on national security. It is not a mandatory requirement for the parties involved in such investment to file a notice for review by CFIUS. However, if such a notification is not filed, and subsequently CFIUS determines that the transaction raises US national security or critical infrastructure concerns, then CFIUS has the authority to unwind the transaction. Such action by CFIUS is not subject to review by a US court.

Carbon Innovations and Touchstone Research lodged a notice for review under CFIUS on 6 June 2016.

The CFIUS process is summarised as follows: the parties to a transaction with a voluntary review process, which allows CFIUS to issue a “no action” decision that protects the parties going forward with a so-called safe harbor protection. The parties voluntarily notify CFIUS, which initiates a review, generally before the transaction has closed or been completed. Routine reviews are generally quickly resolved and parties receive a “no action” determination within a 30-day period including a 7-14 day pre-filing discussion process with CFIUS. The filing can then be accepted as soon as the deal has been signed. A more extensive review time (another 45 days) may be needed, especially if the transaction involves a transfer to a foreign government or to companies controlled by foreign governments and sovereign wealth funds or if a transaction would result in the transfer of control of critical infrastructure to a foreign person. CFIUS may, then, propose that the parties take steps to mitigate any national security concerns. The Foreign Investment and National Security Act (**FINSA**) formalised the mitigation process, and today mitigation agreements overseen by CFIUS have become more common.

CFIUS will firstly determine whether the foreign investment is a “covered” transaction (i.e. whether the completion of the transaction result in foreign control of any person engaged in interstate commerce in the United States). If so, CFIUS will then consider whether the transaction (merger, acquisition or takeover) raises potential US national security or critical infrastructure implications. If so determined, then it may block the transaction or request the parties to take certain steps to mitigate such risk.

The risk has been identified and the Company and Carbon Innovations will seek the ‘no-action’ decision or take steps to mitigate such risk to the satisfaction of CFIUS.

(d) **Commercialisation of CFOAM**

The Company is relying on its ability to develop and commercialise CFOAM. As part of the settlement of the Acquisition, Carbon Innovations will issue a US\$4,000,000 promissory note to Touchstone Research and this will be secured by a second lien security interest over the Assets. There is a risk that if the Company's commercialisation strategy does not develop, as planned, the failure to successfully develop and commercialise CFOAM could lead to a requirement to raise additional capital (refer to risk below), loss of opportunities and may adversely impact on the Company's operating results and financial position.

(e) **Additional Requirements for Capital to Continue Commercialisation Strategy**

As the Company's commercialisation strategy progresses it will need to increase its production to cater for growth. This will be done initially at the current premises. These premises are limited to growth and new premises will be required if production of CFOAM significantly increases. This transfer of production facilities and business will represent a significant capital investment and the Company will require further financing in addition to amounts raised under the capital raising. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its production. There is however no guarantee that the Company will be able to secure any additional funding or be able to secure funding on terms favourable to the Company.

(f) **Research and Development Activities**

The Company can make no representation that any of its research into the further development of CFOAM will be successful, that any development milestones will be achieved, or that CFOAM will be developed into products that are commercially exploitable.

(g) **Intellectual Property Risks**

Securing rights to the CFOAM technology, and in particular patents, is an integral part of securing potential product value in the outcomes of biotechnology research and development. Competition in retaining and sustaining protection of technology and the complex nature of technology can lead to expensive and lengthy patents disputes for which there can be no guaranteed outcome.

The Company's interest in the CFOAM technology is currently protected by a number of US and foreign patents. Whilst this will provide the Company with protection, the granting of a patent does not guarantee that the rights of others are not infringed or that competitors will not develop competing technologies that circumvent such patents. The Company's success depends, in part, on its ability to maintain patents, maintain trade secret protection and operate without infringing the proprietary rights of third parties. Because the patent position of technology companies can be highly uncertain and frequently involve complex legal and scientific evaluation, neither the breadth of claims allowed in patents nor their enforceability can be predicted. There can be no assurance that any patents the Company may own or control or

licence now and in the future will afford the Company commercially significant protection of the CFOAM technology.

Although the Company is not aware of any third party interests in relation to the CFOAM intellectual property, and has taken steps to protect and confirm its interest in these rights, there is always a risk of third parties claiming involvement in technological discoveries, and if any disputes arise, they could adversely affect the Company.

Although the Company will implement all reasonable endeavours to protect the CFOAM Technology, there can be no assurance that these measures have been, or will be sufficient.

(h) **Product Liability**

The future sale of its products will expose the Company to product liability risks which are inherent in the research and development, manufacturing, marketing and use of its products. The Company will seek to obtain and maintain adequate levels of insurance to cover product liability risks.

Despite this, there can be no guarantee that adequate insurance coverage will be available at an acceptable cost (or in adequate amounts), if at all, or that product liability or other claims will not materially and adversely affect the operations and condition of the Company. A product liability claim may give rise to significant liabilities as well as damage the Company's reputation.

(i) **Uncertainty of Future Profitability**

The Company's ability to operate profitably in the future will depend in part on its ability to successfully commercialise its products and grow sales of CFOAM via an increase in market share in the aerospace tooling market and expanding into new markets and identifying additional end uses.

Other factors that will determine the Company's profitability are its ability to manage its costs, its ability to execute its development and growth strategies, economic conditions in the markets in which it operates, competitive factors and regulatory developments. Accordingly, the extent of future profits, if any, and the time required to achieve a sustained profitability are uncertain.

(j) **Failure to Deal with Growth**

The Company's business has the potential to grow rapidly. If that occurs and the Company fails to properly manage that growth, then that failure could harm its business. Any failure to meet customer demand properly could adversely affect the Company's business, including demand for the Company's products/services, revenue collection, customer satisfaction and public perception.

(k) **Failure to Meet Regulatory Standards**

The Company's operations could be materially adversely affected if:

- (i) it is unable to obtain or maintain a licence or approval which it is required to obtain or maintain in order to conduct its operations;
- (ii) it breaches any applicable legislative or regulatory requirement;
- (iii) it is required to comply with new or additional legislative or regulatory requirements; or
- (iv) the costs of complying with applicable legislation and regulations increase.

(l) **Operational and Technical Risks**

The future operations of the Company may be affected by a range of operational and technical factors which may affect commercialisation of CFOAM, including:

- (i) mechanical failure of operating plant and equipment, work stoppage, increase in transportation costs, adverse weather conditions, industrial and environmental accidents, industrial disputes and other force majeure events; and
- (ii) unexpected shortages or increases in the costs of materials, plant and equipment.

(m) **Staff Risk**

There is a risk that, where there is a turnover of development staff who have knowledge of the technology and business, that knowledge will be lost in the event that those staff resign or retire. This involves the risk that those staff will have information in respect of the Company's intellectual property which has a commercial value to the Company as well as an opportunity cost for replacement of those staff and subsequent training.

This risk is mitigated as all staff contracts will contain express provisions with respect to ownership of intellectual property and restraints of trade to limit any potential loss suffered by the Company to the maximum extent possible.

(n) **Liquidity Risk**

There is no guarantee that the Shares will trade at a particular price or a particular volume after the Company's listing on the ASX. There is no guarantee that there will be an ongoing liquid market for Shares. Accordingly, there is a risk that, should the market for Shares become illiquid, Shareholders will be unable to realise their investment in the Company.

(o) **Environmental Risk**

The operations and proposed activities of the Company are subject to laws and regulations concerning the environment. As with most manufacturing and project development businesses, the Company's activities are expected to have an impact on the environment. It is the Company's intention to conduct its activities to the highest standard of

environmental obligation, including compliance with all environmental laws.

### **7.3 Engineering Materials Market Specific**

#### **(a) Competition from Existing Market Players**

The Company may face competition from existing market players who may, for example, undertake aggressive marketing campaigns, product innovation or price discounting.

#### **(b) Highly Competitive Market**

The Company will be participating in a highly competitive market, however there are few, if any, specific competitors who have a dominant market share and dictate the structure or practices in the market.

The fact that there are no dominant competitors makes market entry and penetration easier but not without the need to ensure that the Company can position and differentiate itself to gain market share. There is no certainty that the Company will be successful in this market.

Although the Company will undertake all reasonable due diligence in its business decisions and operations, the Company will have no influence or control over the activities or actions of its competitors, which activities or actions may, positively or negatively, affect the operating and financial performance of the Company's business.

#### **(c) Multiple Markets and End Uses**

CFOAM has the potential to be monetised in a number of markets and has a number of potential end uses. However, targeting every market and end use at once is impractical for a company of this size given, among other things, that each market and potential end use has different relationship requirements, different sales requirements, different purchasing time-frames and so on, and requires its own business plan.

The Company must therefore decide about the markets and end uses in which it is most likely to be successful in the shortest amount of time, and seek out those opportunities. There can be no guarantee that this approach will be successful.

### **7.4 General risks**

#### **(a) Limited Operating History**

The Company was incorporated in March 2016 and accordingly has a limited operating history and the potential of its business model is unproven. While significant funding and time has been spent on the development of CFOAM, it has not yet reached the commercialised manufacturing stage. Therefore an investment in the Company should be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stages of production.



(b) **Economic**

General economic conditions, introduction of tax reform, new legislation, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's activities, as well as on its ability to fund those activities.

(c) **Market conditions**

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) introduction of tax reform or other new legislation;
- (iii) interest rates and inflation rates;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and
- (vi) terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and industrial stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

(d) **Market Acceptance**

The global marketplace for most products is ever changing due to new technologies, new products, changes in preferences, changes in regulation and other factors influencing market acceptance or market rejection. This market volatility and risk exists despite the best endeavours of market research, promotion and sales and licensing campaigns.

Accordingly, there is a risk that the Company may not be able to commercialise its products, which could adversely impact the Company's operations.

(e) **Reliance on Key Personnel and the Need to Attract and Retain Qualified Staff**

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance that the Company will be able to retain its key management personnel or attract or retain sufficiently qualified personnel on a timely basis. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment.



(f) **Foreign Exchange Rate Risks**

The Company expects to derive a majority of its revenue and incur its business expenses from its operations in the United States, in US dollars. Accordingly, changes in the exchange rate between the United States dollar and the Australian dollar would be expected to have a direct effect on the performance of the Company.

(g) **Changes to Government Policies and Legislative Changes**

Government policy and legislative changes which are outside the control of the Company may have a negative impact on the financial performance of the Company. This risk factor applies to government policy and legislative changes in the United States of America and in Australia.

## **7.5 Investment Speculative**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Securities offered under this Prospectus

Therefore, the Securities to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Securities.

Potential investors should consider that the investment in the Company is highly speculative and should consult their professional advisers before deciding whether to apply for Securities pursuant to this Prospectus.

17 June 2016

The Directors  
CFOAM Limited  
Level 1, 33 Ord Street  
WEST PERTH WA 6005

Dear Directors

## 8. INVESTIGATING ACCOUNTANT'S REPORT

### 1. Introduction

BDO Corporate Finance (WA) Pty Ltd (**'BDO'**) has been engaged by CFOAM Limited (**'CFOAM'** or **'the Company'**) to prepare this Investigating Accountant's Report (**'Report'**) in relation to certain financial information of CFOAM, for the Initial Public Offering (**'IPO'**) of shares in CFOAM, for inclusion in the Prospectus. Broadly, the Prospectus will offer up to 45 million shares at an issue price of A\$0.20 each to raise up to A\$9 million before costs (**'Public Offer'**). The Public Offer is subject to a minimum subscription level of 25 million shares to raise A\$5 million before costs.

On 29 March 2016, CFOAM, through its wholly owned US subsidiary, Carbon Innovations, LLC (**'Carbon Innovation'**), entered into an Asset Purchase Agreement to acquire all of the assets which are used or held for use in connection with the production and sale of **'CFOAM'** (the **'Assets'**) from Touchstone Research Laboratory, Ltd (**'Touchstone Research'**) (the **'Acquisition'**).

The aggregate purchase price for the Acquisition, payable to Touchstone Research, is as follows:

- a US\$200,000 escrow deposit (**'Escrow Deposit'**), which has already been paid by the Company;
- on Completion, US\$2,800,000 as follows:
  - a) US\$2,000,000 by bank transfer to Wesbanco, Touchstone Research's bank in consideration for Wesbanco releasing its liens over the Assets (**'Initial Cash Payment'**); and
  - b) Carbon Innovations will issue a US\$800,000 promissory note with a term of 5 years and an interest rate of 3% per annum, secured by a first lien security interest in the Assets (**'Initial Promissory Note'**);

- On completion, Carbon Innovations will issue a US\$4,000,000 promissory note to Touchstone Research which will accrue interest at 2% per annum and be secured by a second lien security interest in the Assets (**'Secondary Promissory Note'**). The Secondary Promissory Note and any accrued interest is payable to Touchstone Research as follows:
  - a) US\$2,000,000 plus accrued interest is payable within 30 days of post-Completion cumulative sales volume reaching US\$3,000,000; or
  - b) If post-Completion cumulative sales volume has not reached US\$3,000,000 within one year of Completion, then US\$1,000,000 plus accrued interest is payable within 10 days of the date that is one year following Completion; and
  - c) The remaining principal balance of the promissory note plus all unpaid accrued interest will be paid in full on the later of:
    - I. 30 days of post-Completion cumulative sales volume reaching US\$6,000,000; and
    - II. The second anniversary of the Completion.
- On Completion, the Company will issue Touchstone Research approximately 12.5% of its share capital following completion of the Offer (a total of 9,187,500 Shares). This will be a lower pro-rata percentage if more than A\$5,000,000 is raised pursuant to the Public Offer (**'Consideration Offer'**).

In addition to the Public Offer, the Prospectus also includes:

- a) A private offer of 9,187,500 Shares to Touchstone Research and/or Brian Joseph or their nominee(s) in consideration for the Acquisition pursuant to the Consideration Offer;
- b) A private offer of up to 1,800,000 Shares to parties that have acted as advisors or consultants to the Company in consideration for introducing the Acquisition to the Company and assisting with its implementation (**'Advisor Offer'**); and
- c) A private offer of up to 1,750,000 Options to Daniel Placha or his nominee(s), a senior manager of the Company, in consideration for the provision of services by him to the Company (**'Manager Offer'**).

Expressions defined in the Prospectus have the same meaning in this Report. BDO Corporate Finance (WA) Pty Ltd (**'BDO'**) holds an Australian Financial Services Licence (AFS Licence Number 316158).

This Report has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the financial information to which it relates for any purpose other than that for which it was prepared.

## 2. Scope

You have requested BDO to perform a limited assurance engagement in relation to the historical and pro forma historical financial information described below and disclosed in the Prospectus.

The historical and pro forma historical financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

You have requested BDO to review the following historical financial information (together the **‘Historical Financial Information’**) included in the Prospectus:

- the audited historical Statement of Profit or Loss and Other Comprehensive Income for CFOAM for the period 30 March 2016 (date of incorporation) to 20 May 2016;
- the audited historical Statement of Profit or Loss and Other Comprehensive Income for Carbon Innovations for the period 19 October 2015 (date of incorporation) to 20 May 2016; and
- the audited historical Statement of Financial Position for both CFOAM and Carbon Innovations as at 20 May 2016.

The Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company’s adopted accounting policies.

The Historical Financial Information for CFOAM for the period 30 March 2016 (date of incorporation) to 20 May 2016 has been extracted from the financial statements of CFOAM for the period ended on that date, which was audited by BDO Audit (WA) Pty Ltd in accordance with the Australian Auditing Standards. BDO Audit (WA) Pty Ltd issued an unmodified audit opinion on the financial report, however did include an emphasis of matter noting that the ability of CFOAM to continue as a going concern is dependent upon the success of the fundraising under the Prospectus and/or the continued support of shareholders.

The Historical Financial Information for Carbon Innovations for the period 19 October 2015 (date of incorporation) to 20 May 2016 has been extracted from the financial statements of Carbon Innovations for the period ended on that date, which was audited by BDO Audit (WA) Pty Ltd in accordance with the Australian Auditing Standards. BDO Audit (WA) Pty Ltd issued an unmodified audit opinion on the financial report, however did include an emphasis of matter noting that the ability of Carbon Innovations to continue as a going concern is dependent upon the continued financial support of its holding company, CFOAM.

#### *Pro Forma Historical Financial Information*

Carbon Innovations is a 100% owned subsidiary of CFOAM. As such, the pro forma historical financial information disclosed in the prospectus is presented on a consolidated basis. You have requested BDO to review the following pro forma consolidated historical financial information (the **‘Pro Forma Historical Financial Information’**) of CFOAM (including its 100% owned subsidiary, Carbon Innovations) included in the Prospectus:

- the pro forma historical Consolidated Statement of Financial Position as at 20 May 2016.

The Pro Forma Historical Financial Information has been derived from the Historical Financial Information of CFOAM and Carbon Innovations, after adjusting for the effects of the subsequent events described in Section 6 of this Report and the pro forma adjustments described in Section 7 of this Report. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the Historical Financial Information and the events or transaction to which the pro forma adjustments relate, as described in Section 7 of this Report, as if those events or transactions had occurred as at the date of the Historical Financial Information. Due to its nature, the Pro Forma Historical Financial Information does not represent the company’s actual or prospective financial position or financial performance.

The Pro Forma Historical Financial Information has been compiled by the Company to illustrate the impact of the events or transactions described in Section 6 and Section 7 of the Report on the Company’s financial position as at 20 May 2016. As part of this process, information about

the Company's financial position has been extracted by the Company from the financial statements of CFOAM and Carbon Innovations for the period ended 20 May 2016.

### 3. Directors' responsibility

The directors of the Company are responsible for the preparation and presentation of the Historical Financial Information and Pro Forma Historical Financial Information, including the selection and determination of pro forma adjustments made to the Historical Financial Information and included in the Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of Historical Financial Information and Pro Forma Historical Financial Information are free from material misstatement, whether due to fraud or error.

### 4. Our responsibility

Our responsibility is to express limited assurance conclusions on the Historical Financial Information and the Pro Forma Historical Financial Information. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the financial information.

### 5. Conclusion

#### *Historical Financial Information*

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Historical Financial Information, as described in the Appendices to this Report, and comprising:

- the historical Statement of Profit or Loss and Other Comprehensive Income for CFOAM for the period 30 March 2016 (date of incorporation) to 20 May 2016;
- the historical Statement of Profit or Loss and Other Comprehensive Income for Carbon Innovations for the period 19 October 2015 (date of incorporation) to 20 May 2016; and
- the historical Statement of Financial Position for both CFOAM and Carbon Innovations as at 20 May 2016.

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 2 of this Report.

#### *Pro Forma Historical Financial information*

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information as described in the Appendices to this Report, and comprising:

- the pro forma historical Consolidated Statement of Financial Position as at 20 May 2016,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 2 of this Report.

## **6. Subsequent Events**

Apart from the matters dealt with in this Report, and having regard to the scope of this Report and the information provided by the Directors, to the best of our knowledge and belief no material transaction or events outside of the ordinary business of the Company, has come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

## **7. Assumptions Adopted in Compiling the Pro-forma Historical Financial Information**

The pro forma historical Consolidated Statement of Financial Position is shown in Appendix 2. This has been prepared based on the financial statements of CFOAM and Carbon Innovations as at 20 May 2016, and the following transactions and events relating to the issue of Shares under this Prospectus:

- The issue of 45 million shares at an offer price of A\$0.20 each to raise A\$9 million before costs based on the maximum subscription or the issue of 25 million shares at an offer price of A\$0.20 each to raise A\$5 million before costs based on the minimum subscription, pursuant to the Public Offer;
- Costs associated with the Offer are estimated to be A\$620,000 based on the minimum subscription or A\$865,000 based on the maximum subscription. An amount of A\$346,939 based on the minimum subscription and A\$601,604 based on the maximum subscription relate to the issue of new shares and are to be offset against contributed equity with the remaining costs to be expensed;
- The issue of 1,800,000 Shares pursuant to the Advisor Offer. These Shares have been valued at the Public Offer issue price of A\$0.20 each;
- The issue of 1,750,000 Options pursuant to the Manager Offer. In respect of 1,000,000 of these Options, the exercise price will be \$0.30 and the expiry date will be 30 June 2021 (these Options will not vest until 31 December 2017). In respect of 750,000 of these Options, the exercise price will be \$0.50 and the expiry date will be 30 June 2021 (these Options will not vest until 30 June 2018). As both tranches of Options do not vest immediately the expense is to be apportioned over the respective vesting periods. Therefore no expense has been recorded in the pro forma historical Consolidated Statement of Financial Position;
- The issue of 1,250,000 Performance Rights to Daniel Placha or his nominee(s). The Performance Rights have a life that is 3 years from the issue date. The Performance Rights shall vest upon satisfaction of the following:
  - 750,000 Performance Rights will vest upon completion of the de-bottleneck of the production of CFOAM process after the capital investment as part of the commercialisation strategy; and

- 500,000 Performance Rights will vest upon the Company's post-Completion cumulative sales volume of CFOAM reaching US\$3,000,000.

provided that in no circumstance will the Performance Rights vest prior to 1 year after issue date. As both tranches of Performance Rights do not vest immediately the expense is to be apportioned over the respective vesting periods. Therefore no expense has been recorded in the pro forma historical Consolidated Statement of Financial Position;

- CFOAM will make the following upfront payments to Touchstone Research in consideration for the Acquisition, in addition to the US\$200,000 Escrow Deposit already paid:
  - Payment of the Initial Cash Consideration of US\$2,000,000 (A\$2,777,778 at an FX rate of A\$1/US\$0.72);
  - The Company will issue the Initial Promissory Note of US\$800,000 (A\$1,111,111 at an FX rate of A\$1/US\$0.72); and
  - The Company will issue 9,187,500 Shares to Touchstone Research pursuant to the Consideration Offer. These Shares have been valued at the Public Offer issue price of A\$0.20 each;
- CFOAM will issue the Secondary Promissory Note of US\$4,000,000 (A\$5,555,556 at an FX rate of A\$1/US\$0.72). The Secondary Promissory Note and any accrued interest is payable to Touchstone Research as follows:
  - US\$2,000,000 plus accrued interest is payable within 30 days of post-Completion cumulative sales volume reaching US\$3,000,000; or
  - If post-Completion cumulative sales volume has not reached US\$3,000,000 within one year of Completion, then US\$1,000,000 plus accrued interest is payable within 10 days of the date that is one year following Completion; and
  - The remaining principal balance of the Secondary Promissory Note plus all unpaid accrued interest will be paid in full on the later of:
    - 30 days of post-Completion cumulative sales volume reaching US\$6,000,000; and
    - The second anniversary of the Completion.

## 8. Independence

BDO is a member of BDO International Ltd. BDO does not have any interest in the outcome of the Offer other than in connection with the preparation of this Report, for which professional fees will be received. BDO is the auditor of the Company and from time to time provides the Company with certain other professional services for which normal professional fees are received.

## 9. Disclosures

This Report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to be a substitute for professional advice and potential investors should not make specific investment decisions in reliance on the information contained in this Report. Before acting or relying on any information, potential investors should consider whether it is appropriate for their objectives, financial situation or needs.

Without modifying our conclusions, we draw attention to Section 2 of this Report, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose.

BDO has consented to the inclusion of this Report in the Prospectus in the form and context in which it is included. At the date of this Report this consent has not been withdrawn. However, BDO has not authorised the issue of the Prospectus. Accordingly, BDO makes no representation regarding, and takes no responsibility for, any other statements or material in or omissions from the Prospectus.

Yours faithfully

**BDO Corporate Finance (WA) Pty Ltd**



**Peter Toll**

Director



**APPENDIX 1**  
**CFOAM LIMITED**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

| <b>CFOAM Limited</b>                                     |  | <b>Audited for the period from<br/>30-Mar-16 (incorporation)<br/>to 20 May 2016<br/>A\$</b> |
|--|--|---|
| <b>Revenue</b>   |  |   |
| Other revenue  |  | -   |
| <b>Expenses</b>  |  |   |
| Australian Stock Exchange fees                           |  | (5,000)   |
| Legal fees   |  | (1,200)   |
| <b>Loss from continuing operations before income tax</b> |  | <b>(6,200)</b>  |
| Income tax expense                                       |  | -   |
| <b>Loss from continuing operations after income tax</b>  |  | <b>(6,200)</b>  |
| Other comprehensive income, net of tax                   |  | -   |
| <b>Total comprehensive loss for the period</b>           |  | <b>(6,200)</b>  |

| <b>Carbon Innovations, LLC</b>                           |  | <b>Audited for the period from<br/>19-Oct-15 (incorporation)<br/>to 20 May 2016<br/>US\$</b> |
|--|--|--|
| <b>Revenue</b>   |  |  |
| Other revenue  |  | -  |
| <b>Expenses</b>  |  |  |
| Escrow account and other bank charges                    |  | (2,045)  |
| Legal fees   |  | (83,453)   |
| Raw material services report                             |  | (5,032)  |
| Travel and accomodation expenses                         |  | (5,309)  |
| <b>Loss from continuing operations before income tax</b> |  | <b>(95,839)</b>  |
| Income tax expense                                       |  | -  |
| <b>Loss from continuing operations after income tax</b>  |  | <b>(95,839)</b>  |
| Other comprehensive income, net of tax                   |  | -  |
| <b>Total comprehensive loss for the period</b>           |  | <b>(95,839)</b>  |

The above statements of profit or loss and other comprehensive income show the historical financial performance of CFOAM and Carbon Innovations and are to be read in conjunction with the notes to and forming part of the Historical Financial Information set out in Appendix 3. Past performance is not a guide to future performance.

## APPENDIX 2

### CFOAM LIMITED

#### PRO-FORMA HISTORICAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  |       | Audited as at<br>20-May-16 | Pro forma adjustments |                    | Pro forma after offer |                    |
|--|-------|----------------------------|-----------------------|--------------------|-----------------------|--------------------|
|  | Notes | A\$                        | \$5 million<br>A\$    | \$9 million<br>A\$ | \$5 million<br>A\$    | \$9 million<br>A\$ |
| <b>CURRENT ASSETS</b>                  |       |                            |                       |                    |                       |                    |
| Cash and cash equivalents <sup>#</sup> | 2     | 575,858                    | 1,602,222             | 5,357,222          | 2,178,080             | 5,933,080          |
| Other assets                           | 3     | 278,398                    | (277,778)             | (277,778)          | 620                   | 620                |
| <b>TOTAL CURRENT ASSETS</b>            |       | <b>854,256</b>             | <b>1,324,444</b>      | <b>5,079,444</b>   | <b>2,178,700</b>      | <b>5,933,700</b>   |
| <b>NON CURRENT ASSETS</b>              |       |                            |                       |                    |                       |                    |
| Plant & equipment                      | 4     | -                          | 4,644,315             | 4,644,315          | 4,644,315             | 4,644,315          |
| Intangible assets                      | 5     | -                          | 6,915,407             | 6,915,407          | 6,915,407             | 6,915,407          |
| <b>TOTAL NON CURRENT ASSETS</b>        |       | <b>-</b>                   | <b>11,559,722</b>     | <b>11,559,722</b>  | <b>11,559,722</b>     | <b>11,559,722</b>  |
| <b>TOTAL ASSETS</b>                    |       | <b>854,256</b>             | <b>12,884,167</b>     | <b>16,639,167</b>  | <b>13,738,423</b>     | <b>17,493,423</b>  |
| <b>CURRENT LIABILITIES</b>             |       |                            |                       |                    |                       |                    |
| Trade and other payables               |       | 108,396                    | -                     | -                  | 108,396               | 108,396            |
| <b>TOTAL CURRENT LIABILITIES</b>       |       | <b>108,396</b>             | <b>-</b>              | <b>-</b>           | <b>108,396</b>        | <b>108,396</b>     |
| <b>NON CURRENT LIABILITIES</b>         |       |                            |                       |                    |                       |                    |
| Borrowings                             | 6     | -                          | 6,666,667             | 6,666,667          | 6,666,667             | 6,666,667          |
| <b>TOTAL NON CURRENT LIABILITIES</b>   |       | <b>-</b>                   | <b>6,666,667</b>      | <b>6,666,667</b>   | <b>6,666,667</b>      | <b>6,666,667</b>   |
| <b>TOTAL LIABILITIES</b>               |       | <b>108,396</b>             | <b>6,666,667</b>      | <b>6,666,667</b>   | <b>6,775,063</b>      | <b>6,775,063</b>   |
| <b>NET ASSETS</b>                      |       | <b>745,860</b>             | <b>6,217,500</b>      | <b>9,972,500</b>   | <b>6,963,360</b>      | <b>10,718,360</b>  |
| <b>EQUITY</b>                          |       |                            |                       |                    |                       |                    |
| Contributed equity                     | 7     | 890,879                    | 6,850,561             | 10,595,896         | 7,741,440             | 11,486,775         |
| Reserves                               |       | -                          | -                     | -                  | -                     | -                  |
| Accumulated losses                     | 8     | (145,019)                  | (633,061)             | (623,396)          | (778,080)             | (768,415)          |
| <b>TOTAL EQUITY</b>                    |       | <b>745,860</b>             | <b>6,217,500</b>      | <b>9,972,500</b>   | <b>6,963,360</b>      | <b>10,718,360</b>  |

\*The historical balance sheet as at 20 May 2016 is presented on a consolidated basis incorporating CFOAM as the parent and its 100% owned subsidiary Carbon Innovations. Carbon Innovations balances have been converted at an exchange rate of A\$1:US\$0.72.

*\*The cash and cash equivalents balance above does not account for working capital spent during the period 21 May 2016 until completion. From 21 May 2016 to the date of this Report, the Company has spent approximately US\$60,000 (A\$83,333 at an FX rate of A\$1/US\$0.72) on working capital of the Company and expenses related to the Public Offer and Acquisition. The Company will spend further working capital between the lodgement of the Prospectus and the closing date in line with estimates contained in the Prospectus.*

The pro-forma historical consolidated statement of financial position after the Offer is as per the consolidated statement of financial position before the Offer adjusted for any subsequent events and the transactions relating to the issue of shares pursuant to this Prospectus. The pro forma historical consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the Historical Financial Information set out in Appendix 3.

**APPENDIX 3**  
**CFOAM LIMITED**  
**NOTES TO AND FORMING PART OF THE HISTORICAL FINANCIAL INFORMATION**

**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of the Historical Financial Information included in this Report have been set out below.

**Basis of preparation of Historical Financial Information**

The Historical Financial Information has been prepared in accordance with the recognition and measurement, but not all the disclosure requirements of the International Financial Reporting Standards ('IFRS'), other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

**Going Concern**

The Historical Financial Information has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Directors believe that the Company will continue as a going concern. As a result the financial information has been prepared on a going concern basis. However should the fundraising under the Prospectus be unsuccessful, the entity may not be able to continue as a going concern. No adjustments have been made relating to the recoverability and classification of liabilities that might be necessary should the Company not continue as a going concern.

**Reporting Basis and Conventions**

The Report is also prepared on an accrual basis and is based on historic costs and does not take into account changing money values or, except where specifically stated, current valuations of non-current assets.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the Report. The accounting policies have been consistently applied, unless otherwise stated.

**a) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

**b) Trade and other payables**

Trade and other payables represent the liabilities at the end of the reporting period for goods and services received by the company that remain unpaid.

Trade payables are recognised at their transaction price. Trade payables are obligations on the basis of normal credit terms.

**c) Issued capital**

Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**d) Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

**e) Fair value measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

**f) Borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

**g) Intangible assets**

Intangible assets acquired, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

**h) Impairment of non-financial assets**

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for

impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

#### **i) Critical accounting estimates and judgements**

The preparation of the historical financial information requires management to make judgements, estimates and assumptions that affect the reported amounts in the historical financial information. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial period are discussed below.

##### *Asset Acquisition*

On 29 March 2016, CFOAM, through its wholly owned US subsidiary, Carbon Innovations, entered into an Asset Purchase Agreement to acquire all of the assets which are used or held for use in connection with the production and sale of 'CFOAM' from Touchstone Research.

The Company has considered whether the Acquisition falls within the scope of *AASB 3 Business Combinations* and therefore is required to be accounted for as a business combination. A business combination involves an acquirer obtaining control of one or more business by transferring cash, incurring liabilities or issuing shares. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors. The Company does not consider that the Acquisition meets the definition of a business combination in accordance with *AASB 3 Business Combination* as the acquired Assets are not deemed to be a business for accounting purposes, therefore have provisionally accounted for the Acquisition as an asset acquisition.

When an asset acquisition does not constitute a business combination, the assets and liabilities are assigned a carrying amount based on their relative fair values in an asset purchase transaction and no deferred tax will arise in relation to the acquired assets and assumed liabilities as the initial recognition exemption for deferred tax under AASB 112 applies. No goodwill will arise on the acquisition and transaction costs of the acquisition will be included in the capitalised cost of the asset.

##### *Provision for other assets*

The provision for impairment of the Escrow Deposit assessment requires a degree of estimation and judgement. Recoverability of the Escrow Deposit is dependent upon the successful completion of the acquisition of the CFOAM assets from Touchstone Research.

#### *Provision for impairment of receivables*

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the aging of receivables historical collection rates and specific knowledge of the individual debtors financial position.

#### *Valuation of share based payment transactions*

The valuation of share-based payment transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black Scholes option valuation model taking into account the terms and conditions upon which the instruments were granted.

#### *Impairment of intangible assets*

At each reporting date, the Company will review the carrying values of its intangible assets to determine whether there is any indication that those assets have been impaired. As at the date of this Report, the Company does not consider there to be any impairment on the carrying value of the intangible assets acquired. However, on successful acquisition date and subsequent reporting dates, the carrying value of the intangible assets acquired will be assessed for impairment and any assessment may result in changes to the carrying value of the intangible assets.

|   | Audited<br>20-May-16<br>A\$ | Pro forma after Offer<br>\$5 million<br>A\$ | \$9 million<br>A\$ |
|---|-----------------------------|---|--------------------|
| <b>NOTE 2. CASH AND CASH EQUIVALENTS</b>    |                             |   |                    |
| Cash and cash equivalents <sup>#</sup>      | 575,858                     | 2,178,080                                   | 5,933,080          |
| Audited balance as at 20 May 2016           |                             | 575,858                                     | 575,858            |
| <i>Pro-forma adjustments:</i>               |                             |   |                    |
| Proceeds from shares issued under the Offer |                             | 5,000,000                                   | 9,000,000          |
| Costs associated with the Offer             |                             | (620,000)                                   | (865,000)          |
| Payment of Initial Cash Consideration       |                             | (2,777,778)                                 | (2,777,778)        |
|   |                             | 1,602,222                                   | 5,357,222          |
| Pro-forma Balance <sup>#</sup>              |                             | 2,178,080                                   | 5,933,080          |

<sup>#</sup>The cash and cash equivalents balance above does not account for working capital spent during the period 21 May 2016 until completion. From 21 May 2016 to the date of this Report, the Company has spent approximately US\$60,000 (A\$83,333 at an FX rate of A\$1/US\$0.72) on working capital of the Company and expenses related to the Public Offer and Acquisition. The Company will spend further working capital between the lodgement of the Prospectus and the closing date in line with estimates contained in the Prospectus.

|                                   | Audited<br>20-May-16<br>A\$ | Pro forma<br>after Offer<br>A\$ |
|-----------------------------------|-----------------------------|---------------------------------|
| <b>NOTE 3. OTHER ASSETS</b>       |                             |                                 |
| Other assets                      | 278,398                     | 620                             |
| Audited balance as at 20 May 2016 |                             | 278,398                         |
| <i>Pro-forma adjustments:</i>     |                             |                                 |
| Transfer of Escrow Deposit        |                             | (277,778)                       |
|                                   |                             | <u>(277,778)</u>                |
| Pro-forma Balance                 |                             | <u>620</u>                      |

|   | Audited<br>20-May-16<br>A\$ | Pro forma<br>after Offer<br>A\$ |
|---|-----------------------------|---------------------------------|
| <b>NOTE 4. PLANT AND EQUIPMENT</b>  |                             |                                 |
| Plant and equipment   | -                           | 4,644,315                       |
| Audited balance as at 20 May 2016   |                             | -                               |
| <i>Pro-forma adjustments:</i>   |                             |                                 |
| Property, plant and equipment acquired under the Acquisition (refer Note 9) |                             | 4,644,315                       |
|   |                             | <u>4,644,315</u>                |
| Pro-forma Balance   |                             | <u>4,644,315</u>                |

|   | Audited<br>20-May-16<br>A\$ | Pro forma<br>after Offer<br>A\$ |
|---|-----------------------------|---------------------------------|
| <b>NOTE 5. INTANGIBLE ASSETS</b>                                |                             |                                 |
| Intangible assets   | -                           | 6,915,407                       |
| Audited balance as at 20 May 2016                               |                             | -                               |
| <i>Pro-forma adjustments:</i>                                   |                             |                                 |
| Patents acquired under the Acquisition (refer Note 9)           |                             | 1,482,872                       |
| Intangible assets acquired under the Acquisition (refer Note 9) |                             | 5,432,535                       |
|   |                             | <u>6,915,407</u>                |
| Pro-forma Balance   |                             | <u>6,915,407</u>                |

|                                      | Audited<br>20-May-16<br>A\$ | Pro forma<br>after Offer<br>A\$ |
|--------------------------------------|-----------------------------|---------------------------------|
| <b>NOTE 6. BORROWINGS</b>            |                             |                                 |
| Borrowings                           | -                           | 6,666,667                       |
| Audited balance as at 20 May 2016    |                             | -                               |
| <i>Pro-forma adjustments:</i>        |                             |                                 |
| Issue of Initial Promissory Note*    |                             | 1,111,111                       |
| Issue of Secondary Promissory Note** |                             | 5,555,556                       |
|                                      |                             | 6,666,667                       |
| Pro-forma Balance                    |                             | 6,666,667                       |

\*The Initial Promissory Note has a term of 5 years and an interest rate of 3% per annum, secured by a first lien security interest in the Assets.

\*\*The Secondary Promissory Note and any accrued interest is payable to Touchstone Research as follows:

- US\$2,000,000 plus accrued interest is payable within 30 days of post-Completion cumulative sales volume reaching US\$3,000,000; or
- If post-Completion cumulative sales volume has not reached US\$3,000,000 within one year of Completion, then US\$1,000,000 plus accrued interest is payable within 10 days of the date that is one year following Completion; and
- The remaining principal balance of the Secondary Promissory Note plus all unpaid accrued interest will be paid in full on the later of:
  - 30 days of post-Completion cumulative sales volume reaching US\$6,000,000; and
  - The second anniversary of the Completion.

|   | Audited<br>20-May-16<br>A\$ |                           | Pro forma after Offer<br>\$5 million<br>A\$ | \$9 million<br>A\$ |
|---|-----------------------------|---------------------------|---|--------------------|
| <b>NOTE 7. ISSUED CAPITAL</b>                       |                             |                           |   |                    |
| Issued capital                                      | 890,879                     |                           | 7,741,440                                   | 11,486,775         |
|   |                             |                           |   |                    |
|   | Number of<br>shares (min)   | Number of<br>shares (max) | \$  | \$                 |
| Fully paid ordinary share capital as at 20 May 2016 | 37,512,500                  | 37,512,500                | 890,879                                     | 890,879            |
| <i>Pro-forma adjustments:</i>                       |                             |                           |   |                    |
| Proceeds from Shares issued under the Offer         | 25,000,000                  | 45,000,000                | 5,000,000                                   | 9,000,000          |
| Costs associated with the Offer                     | -                           | -                         | (346,939)                                   | (601,604)          |
| Issue of Shares under the Advisor Offer             | 1,800,000                   | 1,800,000                 | 360,000                                     | 360,000            |
| Issue of Shares under the Consideration Offer       | 9,187,500                   | 9,187,500                 | 1,837,500                                   | 1,837,500          |
|   | 35,987,500                  | 55,987,500                | 6,850,561                                   | 10,595,896         |
| Pro-forma Balance                                   | 73,500,000                  | 93,500,000                | 7,741,440                                   | 11,486,775         |



| Options on issue following the Offers                               | Number           |
|---|------------------|
| Unlisted Options exercisable at A\$0.30 on or before 30 June 2021*  | 1,000,000        |
| Unlisted Options exercisable at A\$0.50 on or before 30 June 2021** | 750,000          |
| <b>Total Options on issue following the Offers</b>                  | <b>1,750,000</b> |

\*These Options will not vest until 31 December 2017

\*\*These Options will not vest until 30 June 2018

| Performance Rights on issue following the Offers                                   | Number           |
|--|------------------|
| Vest upon completion of the de-bottleneck of the production of CFOAM process*      | 750,000          |
| Vest upon post-Completion cumulative sales volume of CFOAM reaching US\$3 million* | 500,000          |
| <b>Total Performance Rights on issue following the Offers</b>                      | <b>1,250,000</b> |

\*In no circumstance will the above Performance Rights vest prior to 1 year after issue date

|   | Audited<br>20-May-16<br>A\$ | Pro forma after Offer<br>\$5 million<br>A\$ | \$9 million<br>A\$ |
|---|-----------------------------|---|--------------------|
| <b>NOTE 8. ACCUMULATED LOSSES</b>       |                             |   |                    |
| Accumulated losses                      | (145,019)                   | (778,080)                                   | (768,415)          |
| Audited balance as at 20 May 2016       |                             | (145,019)                                   | (145,019)          |
| <i>Pro-forma adjustments:</i>           |                             |   |                    |
| Costs associated with the Offer         |                             | (273,061)                                   | (263,396)          |
| Issue of Shares under the Advisor Offer |                             | (360,000)                                   | (360,000)          |
|   |                             | (633,061)                                   | (623,396)          |
| Pro-forma Balance                       |                             | (778,080)                                   | (768,415)          |

#### NOTE 9: PROVISIONAL ACCOUNTING FOR THE ACQUISITION

On 29 March 2016, CFOAM, through its wholly owned US subsidiary, Carbon Innovations, entered into an Asset Purchase Agreement to acquire all of the assets which are used or held for use in connection with the production and sale of 'CFOAM' from Touchstone Research. The purchase price payable to Touchstone Research for the Acquisition is outlined in Section 1 of this Report.

The Company has considered whether the Acquisition falls within the scope of AASB 3 *Business Combinations* and therefore is required to be accounted for as a business combination. A business combination involves an acquirer obtaining control of one or more business by transferring cash, incurring liabilities or issuing shares. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors. The Company does not consider that the Acquisition meets the definition of a business combination in accordance with AASB 3 *Business Combinations* as the acquired Assets are not deemed to be a business for accounting purposes, therefore have provisionally accounted for the Acquisition as an asset acquisition.

A summary of the acquisition details with respect to the proposed Acquisition as included in our Report is set out below. These details have been determined for the purposes of the pro-forma

adjustments as at 20 May 2016, however will require re-determination as at the successful acquisition date which may result in changes to the values set out below.

| <b>NOTE 9: ASSET ACQUISITION</b>                       | <b>Fair value<br/>A\$</b> |
|--|---------------------------|
| <b>Purchase consideration comprises:</b>               |                           |
| Payment of Escrow Deposit                              | 277,778                   |
| Payment of Initial Cash Consideration                  | 2,777,778                 |
| Issue of Initial Promissory Note                       | 1,111,111                 |
| Issue of Shares under the Consideration Offer          | 1,837,500                 |
| Issue of Secondary Promissory Note                     | 5,555,556                 |
| <b>Total consideration</b>                             | <b>11,559,722</b>         |
| <b>Net assets acquired:</b>                            |                           |
| Property, plant and equipment                          | 4,644,315                 |
| Patents  | 1,482,872                 |
| <b>Total net assets acquired</b>                       | <b>6,127,188</b>          |
| <b>Fair value attributable other intangible assets</b> | <b>5,432,535</b>          |

#### **NOTE 10: RELATED PARTY DISCLOSURES**

Transactions with Related Parties and Directors Interests are disclosed in the Prospectus.

#### **NOTE 11: COMMITMENTS AND CONTINGENCIES**

At the date of this Report no material commitments or contingent liabilities exist that we are aware of, other than those disclosed in the Prospectus.



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June 17, 2016

Board of Directors of CFOAM Ltd.  
The sole member of Carbon Innovations, LLC  
124 Green Valley Lane  
McMurray, PA 15317

RE: Intellectual Property Report on Carbon Innovations, LLC

Dear Sirs:

Buchanan Ingersoll & Rooney ("BIR") has been asked to provide a report on intellectual property ownership and status by Carbon Innovations, LLC, a Delaware limited liability company ("Carbon Innovations"), for inclusion in a capital raising prospectus ("Prospectus") proposed to be issued by CFOAM LTD ("CFOAM") as part of CFOAM's acquisition, through Carbon Innovations, of certain assets of Touchstone Research Laboratory, Ltd., a West Virginia corporation ("TRL"). It is our understanding that in May 2016, CFOAM acquired all of the outstanding equity interests of Carbon Innovations and Carbon Innovations became a wholly-owned subsidiary of CFOAM. Carbon Innovations entered into an Asset Purchase Agreement, as of March 29, 2016 (the "APA"), by and among Carbon Innovations, TRL and Brian E. Joseph ("Joseph"), whereby Carbon Innovations agreed to buy and TRL and Joseph agreed to sell, certain assets of TRL, all as described in the APA.

**1. Background, Interests and Disclosure**

1.1. In preparing this report, BIR has relied upon independent inquiries, searches, documentation, and information provided by officers and senior management of Carbon Innovations.

1.2. The details in this report are believed to be correct as of the date of this report and speak only as of the date hereof. BIR assumes no obligation to review or supplement this report if any applicable laws change after the date hereof or as a result of changes caused by existing law or if we become aware of any facts or circumstances that might change the information or conclusions contained in this report.

1.3. BIR does not have any shareholding interest in either Carbon Innovations or CFOAM or any interest in the outcome of the Prospectus other than in connection with the preparation of this Intellectual Property (IP) Report and participation in the due diligence procedures for which normal professional fees will be received.

1.4. BIR has consented to the inclusion of this IP Report in the Prospectus in the form and context in which it is prepared, but has not authorized the issue of the Prospectus. Accordingly, BIR makes no representation regarding, and takes no responsibility for, any other statements or material in, or omissions from, the Prospectus.

1.5. BIR, in providing this IP Report, is not to be taken as an endorsement of Carbon Innovations or CFOAM, the Carbon Innovations technologies or the offering made pursuant to the Prospectus.

1.6 BIR includes no attorneys registered to practice in Australia; this IP Report, therefore, is written solely with reference to the federal laws of the United States of America.

1.7 This report is issued solely to the sole member of Carbon Innovations and may not be relied upon or used by any other person for any reason.

## **2. Carbon Innovations' Intellectual Property Strategy**

2.1. Carbon Innovations' IP strategy revolves around protection of carbon foam and carbon foam-containing materials, methods for making and using carbon foam and carbon foam-containing materials, and methods for making and using applications of carbon foam and carbon foam-containing materials, including protection through patents, confidential information and the use of trademarks.

2.2. Carbon Innovations has taken steps to secure ownership of patents related to carbon foam and carbon foam-containing materials, methods for making and using carbon foam and carbon foam-containing materials, and methods for making and using applications of carbon foam and carbon foam-containing materials, including, upon consummation of the transactions contemplated by the APA, obtaining assignment of patent rights from TRL and Joseph, which, in turn, obtained rights from named inventors where required.<sup>1</sup> Carbon Innovations does not own any patent rights as of the date of this report, other than rights that will be acquired pursuant to the closing of the transactions contemplated by the APA.

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<sup>1</sup> Named inventors include: Doug R. Amie, Jesse M. Blacker, Susan C. Chang, Harry E. Danford, Brian L. Gordon, Brian E. Joseph, Rick D. Lucas, Thomas M. Matviya, Douglas J. Merriman, Dwayne R. Morgan, Janusz Wladyslaw Plucinski, Isaac Post, Darren Kenneth Rogers, Drew M. Spradling, and Gregg W. Wolfe.

2.3. Carbon Innovations has taken steps to secure ownership of registered trademarks in the United States of America from TRL, upon consummation of the transactions contemplated by the APA. Carbon Innovations does not own any registered trademarks in Australia. Carbon Innovations does not own any registered trademarks as of the date of this report, other than rights that will be acquired pursuant to the closing of the transactions contemplated by the APA. Unregistered trademarks may be protected by the common law regimes of passing off and misleading and deceptive conduct under the Australian Consumer Law; determination of the scope of this protection, if any, would require consultation with qualified Australian counsel.

### **3. Patents/Protection for Inventions**

3.1. A patent is a right that is granted by a government or authorized government agency for any device, substance, method or process that is new, inventive and useful. A patent is legally enforceable and typically gives the owner the right to exclude others from making, selling, offering to sell, using, importing, or exporting the invention claimed in the patent for the life of the patent (typically up to 20 years after the date that the application resulting in the patent was filed).

3.2 United States patents require the payment of maintenance fees at 3.5, 7.5, and 11.5 years after issuance of the patent. Each of those terms may be extended by six months (the "grace period") upon payment of a fee. Following acquisition of the patents listed below, Carbon Innovations will be required to pay maintenance fees to maintain those patents in force.

3.3 In some cases TRL failed to pay required maintenance fees at both the initial deadline and during the grace period. Those patents that are marked with an asterisk below were, at one point, abandoned for failure to pay maintenance fees. TRL revived those patents by paying the fees and filing a petition stating that the failure to pay the fees was unintentional. Although the patents have full force and effect from the date that they were revived, a party that detrimentally relied upon the expiration of those patents prior to the payment of the late maintenance fee may have "intervening rights" that permit that party to make, sell, or use the invention claimed in those patents. Typically this is not a blanket, indefinite right to use the invention. Instead it may extend to the scope that a court deems equitable for the protection of investments made or business commenced after the 6-month grace period but before acceptance of the late maintenance fee.

3.4 TRL has not recorded assignment documents for U.S. Patent Nos. 7,481,855 and 7,736,729. This letter assumes that TRL will record those assignment documents with the United States Patent and Trademark Office prior to consummation of its transaction with Carbon Innovations.

3.5. Upon consummation of the transaction contemplated by the APA, Carbon Innovations will become the owner of the following patents/patent applications (the "Patent Properties"). This is based upon record title of these patents as reflected on June 8, 2016. Note that although recordation of a patent assignment is typically required for the assignment to be effective against a subsequent good-faith purchaser for value, there is a three-month grace period following assignment during which an unrecorded assignment is valid against a subsequent good-faith purchaser for value. This letter assumes that TRL has not made any undisclosed and unrecorded assignments of these patents to any third party within three months prior to June 8, 2016, up to and including the date of execution of the APA.

| Patent Properties |               |   |                 |            |                          |
|-------------------|---------------|---|-----------------|------------|--------------------------|
|                   | Country       | Title   | Application No. | Patent No. | Status/Date (MM/DD/YEAR) |
| 1                 | United States | Blended Pitch/Coal Based Carbon Foams                             | US10/068,075    | US6656239  | Issued<br>12/02/2003     |
| 2*                | United States | Thermal Protection Systems  | US09/944,273    | US6689470  | Issued<br>02/10/2004     |
| 3                 | United States | Cellular Coal Products and Processes                              | US09/902,828    | US6749652  | Issued<br>06/15/2004     |
| 4                 | United States | Composite Tooling   | US09/941,342    | US6849098  | Issued<br>02/01/2005     |
| 5*                | United States | Carbon Foam Abrasives   | US09/976,425    | US6860910  | Issued<br>03/01/2005     |
| 6                 | United States | Carbon Foam Abrasives   | US10/068,074    | US6869455  | Issued<br>03/22/2005     |
| 7                 | United States | Electrochemical Cell Electrodes Comprising Coal-Based Carbon Foam | US09/888,977    | US6899970  | Issued<br>05/31/2005     |
| 8                 | United States | Radar Emission Absorbing Material                                 | US11/002,994    | US7192537  | Issued<br>03/20/2007     |
| 9*                | United States | Stealth Foam and Production Method                                | US09/976,426    | US7247368  | Issued<br>7/24/2007      |
| 10                | United States | Carbon Foam Abrasives   | US10/810,844    | US7481855  | Issued<br>01/27/2009     |
| 11                | United States | Activated Coal - Based Carbon Foam                                | US10/810,900    | US7544222  | Issued<br>06/09/2009     |
| 12                | United States | Simultaneous Production of High Density Carbon Foam Sections      | US11/619,223    | US7628973  | Issued<br>12/08/2009     |



## Intellectual Property Report on Carbon Innovations, LLC

June 17, 2016

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|     |               |  |              |           |                       |
|-----|---------------|--|--------------|-----------|-----------------------|
| 13* | United States | Blast Energy Mitigating Composite                          | US11/165580  | US7736729 | Issued<br>06/15/2010  |
| 14* | United States | Method for Increasing Carbon Foam Yield                    | US11/082,342 | US7766984 | Issued<br>08/03/2010  |
| 15* | United States | Production of Carbon Foam from Coals                       | US11/561,521 | US7767183 | Issued<br>08/03/2010  |
| 16* | United States | High Density Carbon From Coal                              | US11/039,775 | US7824645 | Issued<br>11/02/2010  |
| 17* | United States | Electrically Gradated Carbon Foam                          | US11/964,036 | US7867608 | Issued<br>01/11/2011  |
| 18  | United States | Carbon Foam and High Density Carbon Foam Assembly          | US11/751,651 | US7883683 | Issued<br>02/08/2011  |
| 19  | United States | Fluid Treatment with Activated Carbon and Carbon Foam      | US11/747,371 | US7902116 | Issued<br>03/08/2011  |
| 20* | United States | Composite Exhaust Flue                                     | US12/170,457 | US7931961 | Issued<br>04/26//2011 |
| 21* | United States | Carbon Bonded Carbon Foam EMI Shielding Enclosures         | US11/421,845 | US7960656 | Issued<br>06/14/2011  |
| 22* | United States | Carbon Foam and High Density Carbon Foam Composite Tooling | US11/751,668 | US8021638 | Issued<br>09/20/2011  |
| 23* | United States | Carbon Foam from Metallic Salts of Lignosulfates           | US10/909,832 | US8034266 | Issued<br>10/11/2011  |
| 24* | United States | Cellular Coal Products                                     | US11/142,960 | US8048528 | Issued<br>11/01/2011  |
| 25  | United States | High Density Carbon Foam Composite Tooling                 | US11/751,670 | US8071065 | Issued<br>12/06/2011  |
| 26  | United States | Blast Energy Mitigating Composite                          | US12/135,154 | US8071206 | Issued<br>12/06/2011  |



|     |               |                                       |              |           |                      |
|-----|---------------|---------------------------------------|--------------|-----------|----------------------|
| 27* | United States | Infiltrated Carbon<br>Foam Composites | US12/506,976 | US8105512 | Issued<br>01/31/2012 |
|-----|---------------|---------------------------------------|--------------|-----------|----------------------|

3.6. Following the satisfaction of certain conditions, the APA requires TRL and Joseph to enter into assignment documents transferring ownership of each of these patent assets to Carbon Innovations. The aforementioned APA and assignment includes confirmation by TRL for the inventions defined and described in the patents/patent applications of ownership by TRL and the subsequent transfer of ownership to Carbon Innovations by the assignment.

3.7. The transfer of ownership of the Patent Properties has not yet occurred or been recorded in the United States Patent and Trademark Office (USPTO). Following the closing of the transactions contemplated by the APA, Carbon Innovations and TRL will take the steps necessary to record the change of ownership in the USPTO. Recordal of change of ownership by way of assignment is required by the USPTO to ensure that the assignment is valid against a subsequent good faith purchaser for value of the patents, and if the assignment is recorded within three months of its execution, it will be treated as if it was recorded on the date of execution.

3.8. Third parties may own patents that are relevant to the Carbon Innovations' technology. A "freedom to operate" patent search is a search of patent databases to determine whether there are any patents which Carbon Innovations may infringe by using their technology. No such patent searches have been undertaken by or on behalf of Carbon Innovations.

#### **4. Trademarks**

4.1. A trademark is a "badge of origin" used to distinguish the goods and services of one trader from those of another. A registered trademark is a right that is granted by a government or authorized government agency. A registered trademark is legally enforceable and gives the owner the exclusive rights to commercially use, license or sell the trademark for the goods and services it is registered in relation to for the life of the registration (typically 10 years, but renewable indefinitely).

4.2. Carbon Innovations does not own any Australian trade mark registrations.

4.3. Upon closing of the transactions contemplated by the APA, Carbon Innovations will become the owner of the following United States trademark registrations, which are recorded on the Federal Trademark Register.<sup>2</sup>

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<sup>2</sup> On June 9, 2016, TRL filed a "Combined Declaration of Use/Application for Renewal" of Reg. No. 3,028,815. This letter assumes that filing will be accepted by the USPTO. If that filing is not accepted by the USPTO, then that registration will be abandoned.

| Country | Mark   | Application No. | Registration No. | Registration Date | Status |
|---------|--------|-----------------|------------------|-------------------|--------|
| US      | CFOAM  | 78/527,842      | 3,028,815        | Dec. 13, 2005     | Live   |
| US      | CSTONE | 77/276,826      | 3,944,594        | Apr. 12, 2011     | Live   |
| US      | CFOAM  | 75/794,233      | 2,559,559        | Apr. 9, 2002      | Live   |

4.4. Upon closing of the transactions contemplated by the APA, Carbon Innovations will acquire ownership of the above-listed trademarks by way of an assignment that will be executed, transferring ownership of each of these trademarks, including their goodwill, to Carbon Innovations from TRL.

4.5. Third parties may own registered trademarks or have common law trademark rights in marks that are substantially identical or deceptively similar to the Carbon Innovations trademarks. If a third party owns a relevant registered trademark or common law trademark right, Carbon Innovations may be prevented from using the Carbon Innovations trademarks if the Carbon Innovations trademarks infringe a relevant trademark registration or infringe common law trademark rights. A 'freedom to operate' trademark search is a search of trademark databases to determine whether there are any registered or pending trademarks that are similar to the Carbon Innovations trademarks. No trademark searches have been undertaken by or on behalf of Carbon Innovations in any jurisdiction. No in depth freedom to operate analysis in relation to the use of the trademarks and any potential infringement has been conducted in any jurisdiction.

## 5. Domain Names

5.1. A domain name is a license between the domain name registrant and relevant domain name provider that allows the registrant to exclusively use the domain name for the term of the license (typically 2 years, indefinitely renewable).

5.2. Upon closing of the transactions contemplated by the APA and any necessary filings required to assign domain names from TRL to Carbon Innovations, Carbon Innovations will become the registrant for the following domain names:

|  |
|--|
| Domain Name  |
| <a href="http://www.cfoam.com">www.cfoam.com</a>           |
| <a href="http://www.cfoam.net">www.cfoam.net</a>           |
| <a href="http://www.cfoam.org">www.cfoam.org</a>           |
| <a href="http://www.carbonfoam.net">www.carbonfoam.net</a> |
| <a href="http://www.carbonfoam.org">www.carbonfoam.org</a> |

## **6. Intellectual Property Licenses**

6.1. Upon closing of the transactions contemplated by the APA, Carbon Innovations is obligated to grant a License to TRL, for use of the Patent Properties to make and use carbon foam applications and for limited use of the Patent Properties to make and use carbon foam for in-house research purposes.

6.2. The United States Patent and Trademark Office assignment database indicates that certain TRL patents are subject to licenses in favor of the United States government:

U.S. Dept. of the Navy: 6,899,970; 6,649,652; 7,767,183; 7,481,855; 7,247,368;  
6,869,455; 6,860,910

U.S. Air Force: 6,849,098; 7,824,645; 6,656,239

U.S. Dept. of Energy: 7,544,222

We have not been provided with these licenses and therefore provide no comment on them.

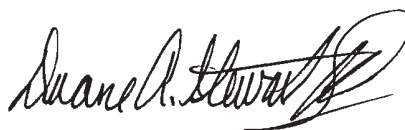
## **7. Miscellaneous Intellectual Property Matters**

7.1. Distribution/JV/Partner agreements: Carbon Innovations has not entered into any distribution/JV/Partner agreements that include a license or transfer of Carbon Innovations' IP.

7.2. Valuations of the IP: No valuations of Carbon Innovations' IP have been conducted.

7.3. Previous and current litigation (actual or threatened) regarding the IP: to our knowledge, there is no previous, current or threatened litigation in relation to Carbon Innovations' IP.

On Behalf of Buchanan Ingersoll & Rooney,

A handwritten signature in black ink, appearing to read "Duane A. Stewart III", with a stylized flourish at the end.

Duane A. Stewart III

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## **10. BOARD, MANAGEMENT AND CORPORATE GOVERNANCE**

### **10.1 Directors and key personnel**

**Michael Placha**  
**Managing Director**

Refer to Section 4.10 of the Prospectus for Michael's biography.

**Gary Steinepreis**  
**Non-Executive Chairman**

Refer to Section 4.10 of the Prospectus for Gary's biography.

**Toby Chandler**  
**Non-Executive Director**

Refer to Section 4.10 of the Prospectus for Toby's biography.

### **10.2 Management and Consultants**

**Daniel Placha**  
**Chief Operating Officer**

Refer to Section 4.10 of the Prospectus for Daniel's biography.

The Company is aware of the need to have sufficient management to properly supervise its commercialisation strategy including development and research programmes, sales and marketing and the Board will continually monitor the management roles in the Company. As the Company's project requires an increased level of involvement the Board will look to appoint additional management and/or consultants when and where appropriate to ensure proper management of the Company's projects.

### **10.3 ASX Corporate Governance Council Principles and Recommendations**

The Company has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

To the extent applicable, the Company has adopted *The Corporate Governance Principles and Recommendations (3rd Edition)* as published by ASX Corporate Governance Council.

The Board seeks, where appropriate, to provide accountability levels that meet or exceed the ASX Corporate Governance Council's Principles and Recommendations.

Details on the Company's corporate governance procedures, policies and practices can be obtained from the Company website at [www.cfoam.com](http://www.cfoam.com).

### **10.4 Board of Directors**

The Board is responsible for corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors

performance against those objectives. The goals of the corporate governance processes are to:

- (a) maintain and increase Shareholder value;
- (b) ensure a prudential and ethical basis for the Company's conduct and activities; and
- (c) ensure compliance with the Company's legal and regulatory objectives.

Consistent with these goals, the Board assumes the following responsibilities:

- (a) developing initiatives for profit and asset growth;
- (b) reviewing the corporate, commercial and financial performance of the Company on a regular basis;
- (c) acting on behalf of, and being accountable to, the Shareholders; and
- (d) identifying business risks and implementing actions to manage those risks and corporate systems to assure quality.

The Company is committed to the circulation of relevant materials to Directors in a timely manner to facilitate Directors' participation in the Board discussions on a fully-informed basis.

In light of the Company's size and nature, the Board considers that the proposed board is a cost effective and practical method of directing and managing the Company. If the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

## **10.5 Composition of the Board**

Election of Board members is substantially the province of the Shareholders in general meeting. However, subject thereto, the Company is committed to the following principles:

- (a) the Board is to comprise Directors with a blend of skills, experience and attributes appropriate for the Company and its business; and
- (b) the principal criterion for the appointment of new Directors is their ability to add value to the Company and its business.

Following Completion, the Board is proposed to consist of 3 members. The Company has adopted a Nominations Committee Charter, but has not established a Nomination Committee. The Directors consider that the Company is currently not of a size, nor are its affairs of such complexity as to justify the formation of a Nomination Committee. The responsibilities of a Nomination Committee are currently carried out by the full Board operating under the Nomination Committee Charter.

Where a casual vacancy arises during the year, the Board has procedures to select the most suitable candidate with the appropriate experience and expertise to ensure a balanced and effective Board. Any Director appointed during the year to fill a casual vacancy or as an addition to the current Board,

holds office until the next general meeting and is then eligible for re-election by the Shareholders.

#### **10.6 Identification and management of risk**

The Board has adopted a Risk Management Policy, but has not established a risk management committee which is responsible for overseeing the risk management function. The Directors consider that the Company is currently not of a size, nor are its affairs of such complexity as to justify the formation of a Risk Management Committee. The responsibilities of a Risk Management Committee are currently carried out by the Board.

#### **10.7 Ethical standards**

The Board is committed to the establishment and maintenance of appropriate ethical standards.

#### **10.8 Independent professional advice**

Subject to the Chairman's approval (not to be unreasonably withheld), the Directors, at the Company's expense, may obtain independent professional advice on issues arising in the course of their duties.

#### **10.9 Remuneration arrangements**

The total maximum remuneration of Non-Executive Directors is initially set by the Constitution and subsequent variation is by ordinary resolution of Shareholders in general meeting in accordance with the Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of Non-Executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each Non-Executive Director. The current amount has been set at an amount of \$300,000.

Directors are also entitled to be paid reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors.

The Board has adopted a Remuneration Committee Charter, but has not established a Remuneration Committee. The role of the Remuneration Committee has been assumed by the full Board operating under the Remuneration Committee Charter.

The Board reviews and approves the remuneration policy to enable the Company to attract and retain Directors who will create value for Shareholders having consideration to the amount considered to be commensurate for a company of its size and level of activity as well as the relevant Directors' time, commitment and responsibility.

#### **10.10 Trading policy**

The Board has adopted a policy that sets out the guidelines on the sale and purchase of Securities in the Company by its key management personnel (including its Directors). The policy generally provides that written notification to the Chairman (or in the case of the Chairman, the other Directors) must be satisfied prior to trading.

#### **10.11 External audit**

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

#### **10.12 Audit committee**

The Company has adopted an Audit and Risk Committee Charter, but has not established an Audit Committee. The role of the Audit Committee has been assumed by the full Board operating under the Audit and Risk Committee Charter.

#### **10.13 Diversity Policy**

The Company has adopted a diversity policy which provides a framework for the Company to establish and achieve measurable diversity objectives, including in respect to gender diversity.

#### **10.14 Departures from Recommendations**

Following admission to the Official List of ASX, the Company will be required to report any departures from the Recommendations in its annual financial report. The Company's compliance and departures from the Recommendations as at the date of this Prospectus are set out in the following pages.

#### **10.15 Corporate Governance Statement**

CFOAM Limited, its wholly owned subsidiaries (**Group**) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders.

The directors are responsible to the Shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of Shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are undertaken by the Board.

#### **10.16 Corporate Governance Compliance**

A description of the Group's main corporate governance practices are set out below. The Group has considered the Recommendations to determine an appropriate system of control and accountability to best fit its business and operations commensurate with these guidelines.



## 10.17 Disclosure of Corporate Governance Practices

### Summary Statement

|                    | ASX Principles and Recommendations | "If not, why not" |
|--------------------|------------------------------------|-------------------|
| Recommendation 1.1 | ✓                                  |                   |
| Recommendation 1.2 | ✓                                  |                   |
| Recommendation 1.3 | ✓                                  |                   |
| Recommendation 1.4 | ✓                                  |                   |
| Recommendation 1.5 |                                    | ✓                 |
| Recommendation 1.6 |                                    | ✓                 |
| Recommendation 1.7 |                                    | ✓                 |
| Recommendation 2.1 |                                    | ✓                 |
| Recommendation 2.2 | ✓                                  |                   |
| Recommendation 2.3 | ✓                                  |                   |
| Recommendation 2.4 |                                    | ✓                 |
| Recommendation 2.5 |                                    | ✓                 |
| Recommendation 2.6 | ✓                                  |                   |
| Recommendation 3.1 | ✓                                  |                   |
| Recommendation 4.1 |                                    | ✓                 |
| Recommendation 4.2 | ✓                                  |                   |
| Recommendation 4.3 | ✓                                  |                   |
| Recommendation 5.1 | ✓                                  |                   |
| Recommendation 6.1 | ✓                                  |                   |
| Recommendation 6.2 | ✓                                  |                   |
| Recommendation 6.3 | ✓                                  |                   |
| Recommendation 6.4 |                                    | ✓                 |
| Recommendation 7.1 |                                    | ✓                 |
| Recommendation 7.2 | ✓                                  |                   |
| Recommendation 7.3 | ✓                                  |                   |
| Recommendation 7.4 | ✓                                  |                   |
| Recommendation 8.1 |                                    | ✓                 |
| Recommendation 8.2 | ✓                                  |                   |
| Recommendation 8.3 | ✓                                  |                   |



## 10.18 Disclosure – Principles & Recommendations

### **Principle 1 – Lay solid foundations for management and oversight** **Recommendation 1.1:**

*A listed entity should disclose the respective roles and responsibilities of its board and management and those matters expressly reserved to the Board and those delegated to management and disclose those functions.*

#### **Disclosure:**

The Directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are undertaken by the Managing Director (who acts in the capacity as CEO).

The matters that the Board has specifically reserved for its decision are:

- (a) the appointment and management of the CEO;
- (b) approval of the overall strategy and annual budgets of the business;
- (c) overseeing the accounting and corporate reporting systems, including the external audit; and
- (d) compliance with constitutional documents.

The CEO is delegated the authority to ensure the effective day-to-day management of the business and the Board monitors the exercise of these powers. The CEO is required to report regularly to the Board on the performance of the Business.

#### **Recommendation 1.2:**

*A listed entity should undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director and provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.*

#### **Disclosure:**

The Company undertakes checks on any person who is being considered as a director. These checks may include character, experience, education and financial history and background.

All security holder releases will contain material information following the guidance contained in the Recommendations about any candidate to be elected for the first time or re-elected to enable an informed decision to be made.

#### **Recommendation 1.3:**

*A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.*

**Disclosure:**

Each senior executive and executive director has a formal employment contract and the non-executive directors have a letter of appointment including a director's interest agreement with respect to disclosure of security interests.

**Recommendation 1.4:**

*The Company Secretary should be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.*

**Disclosure:**

The Company Secretary has a direct reporting line to the Board, through the Chair.

**Recommendation 1.5:**

*A listed entity should establish a policy concerning diversity and disclose the policy or summary of the policy. The policy should include requirements for the Board to establish measureable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.*

**Disclosure:**

The Company has adopted a diversity policy which provides a framework for the Company to establish and achieve measurable diversity objectives, including in respect to gender diversity. There are currently no women employees in the organisation.

**Recommendation 1.6:**

*A listed entity should have and disclose a process for periodically evaluating the performance of the Board, its committees and individual directors and whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

**Disclosure:**

The Board is responsible for evaluating the performance of the Board, its committees and individual directors. This is generally done through a meeting with the Chair.

The review is currently informal but is based on a review of goals for the Board and individual Directors. The goals are based on corporate requirements and any areas for improvement that may be identified. The Chairman will provide each Director with confidential feedback on his or her performance. There has been no formal performance evaluation during the financial year to date as the Company is still at a start-up phase.

**Recommendation 1.7:**

*A listed entity should have and disclose a process for periodically evaluating the performance of senior executives and whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

**Disclosure:**

The Board is responsible for evaluating the senior executives. Induction procedures are in place and senior executives have formal job descriptions which includes the process for evaluating their performance.

There has been no formal performance evaluation of the senior executives during the financial year to date as the Company is still at a start-up phase.

**Principle 2 – Structure the board to add value Recommendation 2.1:**

*The Board of a listed entity should establish a Nomination Committee which the majority should be independent directors (including the Chair).*

**Disclosure:**

A Nomination Committee has not been established. The role of the Nomination Committee has been assumed by the full Board operating under the Nomination Committee Charter adopted by the Board.

**Recommendation 2.2:**

*A listed entity should have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.*

**Disclosure:**

The Board reviews capabilities, technical skills and personal attributes of its directors. It will normally review the Board's composition against those attributes and recommend any changes in Board composition that may be required. An essential component of this will be the time availability of Directors.

|                                | <b>Non-executive chairman/<br/>Company Secretary</b> | <b>Managing director</b> | <b>Non-executive director</b> |
|--------------------------------|--|--------------------------|-------------------------------|
| Leadership                     | X  | X                        | X                             |
| Strategy / Risk                | X  | X                        | X                             |
| Communication                  | X  | X                        | X                             |
| Fundraising                    | X  | X                        | X                             |
| Industrial Industry            | X  | X                        | X                             |
| Governance                     | X  | X                        | X                             |
| Health, safety and environment | X  | X                        | X                             |
| Financial acumen               | X  | X                        | X                             |

**Recommendation 2.3:**

*A listed entity should disclose the names of the directors considered to be independent directors and length of service of each director.*

**Disclosure:**

There are currently no directors considered to be classified as independent directors.

The dates of the appointment of the directors will be contained in the Directors' Report of the Annual Financial Statements.

**Recommendation 2.4:**

*A majority of the Board of a listed entity should be independent directors.*

**Disclosure:**

The Group does not have a majority of independent directors.

Consistent with the size of the Group and its activities, the Board is comprised of three (3) directors, none of which are currently considered to be independent directors.

The Board's policy is that the majority of directors shall be independent, non-executive directors. The composition of the Board does not currently conform to its policy. The Board considers that each of the directors possesses the skills and experience suitable to building the Company and that the current composition of the Board is adequate for the Company's current size and operations. It is the Board's intention to appoint additional directors at a time when the size of the Group and its activities warrants such a structure.

**Recommendation 2.5:**

*The Chair of the Board of a listed entity should be an independent director.*

**Disclosure:**

The Chair is currently not an independent director.

**Recommendation 2.6:**

*A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.*

**Disclosure:**

The Board Charter provides for induction and professional development for the Board.

**Principle 3 - Act ethically and responsibly****Recommendation 3.1:**

*A listed entity should have a Code of Conduct for its directors, senior executives and employees.*

**Disclosure:**

The Company has a Code of Conduct that applies to all Directors, senior executives, employees and contractors.

## **Principle 4 -Safeguard integrity in corporate reporting Recommendation 4.1**

*The Board of a listed entity should have an Audit Committee.*

### **Disclosure:**

An Audit Committee has not been established. The role of the Audit Committee has been assumed by the full Board operating under the Audit and Risk Committee Charter adopted by the Board.

### **Recommendation 4.2**

*The Board of a listed entity should, before it approves the Company's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.*

### **Disclosure:**

This recommendation is included as part of the Audit and Risk Committee Charter adopted by the Board.

### **Recommendation 4.3**

*A listed entity should ensure that the external auditor is present at the AGM and be available to answer questions from security holders relevant to the audit.*

### **Disclosure:**

The Company invites the auditor or representative of the auditor to the AGM.

## **Principle 5 -Make timely and balanced disclosure**

### **Recommendation 5.1:**

*A listed entity should have a written policy for complying with its continuous disclosure obligations under the Listing Rules.*

### **Disclosure:**

The Company has adopted a Continuous Disclosure Policy which was designed to ensure compliance with ASX Listing Rule disclosure.

## **Principle 6 -Respect the rights of security holders**

### **Recommendation 6.1:**

*A listed entity should provide information about itself and its governance to investors via its website.*

### **Disclosure:**

The Company has a website for making this information available to shareholders and investors.

**Recommendation 6.2:**

*A listed entity should design and implement an investor relations program to facilitate two-way communication with investors.*

**Disclosure:**

The Company encourages Shareholders to attend and participate in general meetings and will make itself available to meet Shareholders and regularly responds to enquiries made via telephone and in writing.

**Recommendation 6.3:**

*A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.*

**Disclosure:**

The Company encourages Shareholders to attend and participate in general meetings. As a start-up company the Shareholder attendance numbers are expected to be low however, if a Shareholder wishes to provide a comment or question and is not able to attend the meeting, the Company will address this as part of the meeting.

**Recommendation 6.4:**

*A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.*

**Disclosure:**

The Company is currently reviewing and implementing a strategy to receive communications from, and send communications, to its Shareholders.

**Principle 7 – Recognise and manage risk****Recommendation 7.1:**

*The Board of a listed entity should have a committee or committees to oversee risk.*

**Disclosure:**

The Board has adopted a Risk Management Policy. There is no Risk Management Committee and this role is undertaken by the Board. The overall basis for risk management is to provide recommendations about:

- (a) Assessing the internal processes for determining and managing key risk areas, particularly:
  - (i) non-compliance with laws, regulations, standards and best practice guidelines, including environmental and industrial relations laws;
  - (ii) litigation and claims; and
  - (iii) relevant business risks other than those that are dealt with by other specific Board Committees.

- (b) Ensuring that the Group has an effective risk management system and that major risks to the Group are reported at least annually to the Board.
- (c) Receiving from management reports on all suspected and actual frauds, thefts and breaches of laws.
- (d) Evaluating the process the Group has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.
- (e) Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that may carry more than an acceptable degree of risk.
- (f) Meeting periodically with key management, internal and external auditors and compliance staff to understand and discuss the Group's control environment.

**Recommendation 7.2:**

*The Board of a listed entity should review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and disclose whether such a review has taken place.*

**Disclosure:**

The Board considers risks and discusses risk management at each Board meeting. As part of this all risks are considered including but not limited to strategic, operational, legal, reputation and financial risks. This is an on-going process rather than an annual formal review.

**Recommendation 7.3:**

*A listed entity should disclose if it has an internal audit function.*

**Disclosure:**

The Company does not have an internal audit function but reviews its risk management and internal control processes on a regular basis.

**Recommendation 7.4:**

*The Company should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.*

**Disclosure:**

The Company is of the view that it has adequately disclosed the nature of its operations and relevant information on exposure to economic, environmental and social sustainability risks. Other than general risks associated with the manufacturing and product development industry, the Company does not currently have material exposure to environmental and social sustainability risks.

**Principle 8 -Remunerate fairly and responsibly**

**Recommendation 8.1:**

*The Board of a listed entity should have a Remuneration Committee.*

**Disclosure:**

A Remuneration Committee has not been established. The role of the Remuneration Committee has been assumed by the full Board operating under the Remuneration Committee Charter adopted by the Board.

**Recommendation 8.2:**

*A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.*

**Disclosure:**

The Company provides disclosure of all Directors and executives' remuneration in its annual report.

Non-Executive Directors are remunerated at a fixed fee for time, commitment and responsibilities. Remuneration for Non-Executive Directors is not linked to the performance of the Group. There are no documented agreements providing for termination or retirement benefits to Non-Executive Directors (other than for superannuation).

Executive Directors and senior executives are offered a competitive level of base pay at market rates and are reviewed annually to ensure market competitiveness. Long term performance incentives may include performance and production bonus payments, shares and / or options granted at the discretion of the Board and subject to obtaining the relevant approvals.

**Recommendation 8.3:**

*A listed entity which has an equity based remuneration scheme should have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme and disclose that policy or summary of it.*

**Disclosure:**

Participants in the Company's equity based remuneration schemes are prohibited from entering into any scheme or arrangement under which they hedge or alter the economic benefit that they may derive in respect of their equity based remuneration options or performance rights.



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## 11. MATERIAL CONTRACTS

### 11.1 Asset Purchase Agreement

Touchstone Research, Carbon Innovations and Brian Joseph entered into the Asset Purchase Agreement on or about 29 March 2016 (which was subsequently amended on 14 May 2016). A summary of the material terms of the Asset Purchase Agreement is set out below:

- (a) **Assets:** Carbon Innovations agreed to purchase all right, title and interest in and under all of the Assets, being everything held for use in connection with the production and sale of carbon foam or "CFOAM" (except for the "Finished CFOAM<sub>30</sub>", one five axis router, the government owned assets and all assets of Touchstone Research used primarily in its other line of business) free of encumbrances other than permitted encumbrances which are not material to the Assets or the business of producing and selling CFOAM;
- (b) **Assumed Liabilities:** on Completion, Carbon Innovations will assume and pay when due, the liabilities of Touchstone Research in respect of the subleased property located in West Virginia and certain equipment subleases. A summary of the Sublease Agreement (defined below) is set out in Section 11.3;
- (c) **Consideration:** the aggregate purchase price for the Assets is US\$7,000,000 (**Cash Consideration**) plus Shares. The Cash Consideration will be paid as follows:
  - (i) a US\$200,000 deposit has already been paid;
  - (ii) on Completion, US\$2,800,000 is payable to Touchstone Research as follows:
    - (A) US\$2,000,000 by bank transfer to Wesbanco, Touchstone Research's bank in consideration for Wesbanco releasing its liens over the Assets; and
    - (B) Carbon Innovation will issue a US\$800,000 promissory note to Touchstone Research 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;
  - (iii) on Completion, Carbon Innovations will issue a US\$4,000,000 promissory note to Touchstone Research 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 by Carbon Innovations to Touchstone Research as follows:
    - (A) US\$2,000,000 plus accrued interest is payable within 30 days of post-Completion cumulative sales volume of CFOAM reaching US\$3,000,000; or
    - (B) if post-Completion cumulative sales volume of CFOAM has not reached US\$3,000,000 within one year of Completion, then US\$1,000,000 plus accrued interest is payable within 10 days of the date that is one year following Completion; and

- (C) the remaining principal balance of the promissory note plus all unpaid accrued interest will be paid in full on the later of:
      - (I) 30 days of post-Completion cumulative sales volume of CFOAM reaching US\$6,000,000; and
      - (II) the second anniversary of the Completion.
  - (iv) on Completion, the Company will issue to Touchstone Research and/or Brian Joseph Shares equal to approximately 12.5% of the Company's Share capital following completion of the Offers pursuant to the Consideration Offer or a lower pro-rata percentage of Shares if more than \$5,000,000 is raised pursuant to the Public Offer;
- (d) **Conditions Precedent:** Completion will occur within 10 days after the issue of Securities pursuant to the Offers, subject to completion of various conditions precedent including (among others):
  - (i) each party has executed and delivered to the other parties the agreements and documents which they will be a party as annexed to the Asset Purchase Agreement or which are required to give effect to Completion, including:
    - (A) the intellectual property assignment agreement to be entered into between Carbon Innovations and Touchstone Research, pursuant to which Touchstone Research has agreed to assign all right, title and interest in, and to, all intangible assets and all intellectual property rights in relation to the Assets, to Carbon Innovations;
    - (B) the non-competition agreement to be entered into between Carbon Innovations and Touchstone Research;
    - (C) the Sublease Agreement (defined below) for the West Virginia properties; and
    - (D) the services agreement to be entered into between Carbon Innovations and Touchstone Research; and
    - (E) any and all other documents required to be delivered by a party to the other parties in connection with the Acquisition;
  - (ii) **Consents and proceedings:** all consents from any governmental entity and persons that are required in order for the parties to execute and deliver the Asset Purchase Agreement and to perform their obligations necessary to achieve Completion have been obtained;
  - (iii) **Approvals:** Carbon Innovations will seek written confirmation from Ohio Valley Industrial & Business Development Corporation of its approval for Carbon Innovations to operate the business at the leased premises located in West Virginia on or prior to Completion; and

- (iv) **No Injunction; Consents:** no proceeding is pending before any governmental entity or has been instituted or threatened by any governmental entity or other person in respect of the transactions contemplated by the Asset Purchase Agreement;
- (e) **Termination:** the Asset Purchase Agreement may be terminated in limited circumstances, including if Completion has not occurred by 30 June 2016 as a result of the non-satisfaction of a condition precedent to the Asset Purchase Agreement. However, Carbon Innovations has the ability to extend this date by an additional 45 days to the extent such time is necessary to complete the Offers; and
- (f) **Consultancy and Employment:** Touchstone Research will terminate specified employees and Carbon Innovations may, in its sole discretion, make offers of employment to these individuals.

The Asset Purchase Agreement otherwise contains terms, conditions and restrictions which are customary for an agreement of its nature.

## 11.2 Licence Agreement

Carbon Innovations will, at Completion, enter into a licence back agreement with Touchstone Research (**Licence Agreement**) in consideration for the purchase and transfer of the Assets under the Asset Purchase Agreement on the following terms and conditions:

- (a) **(Carbon Innovations Licence):** Carbon Innovations grants Touchstone Research a worldwide, non-exclusive, perpetual and royalty free licence to use:
  - (i) certain U.S. patents (**Applications Intellectual Property**) to develop, design, manufacture, sell and export (among other things) its manufactured or prepared articles (including carbon foam and end use applications) (**Products**); and
  - (ii) certain U.S. patents (**Manufacturing Intellectual Property**) to internally develop and design materials and methods used in Touchstone Research's internal development of the Products (**Research Tools**), but not to sell, offer to sell, import or export, or distribute its Products,

to ensure that Touchstone Research can continue research and development related to new Products using the Research Tools, but that Touchstone Research cannot manufacture carbon foam for any use other than their own research and development;

- (b) **(Touchstone Research Option):** Touchstone Research grants Carbon Innovations a worldwide perpetual option for a non-exclusive, perpetual, royalty-bearing licence to use any technology, including patents and know-how, directed to the manufacturing of carbon foam developed by Touchstone Research with the use of the intellectual purchased by Carbon Innovations under the Asset Purchase Agreement. The terms of the royalty-bearing licence shall be determined through good faith negotiations of the parties. Touchstone Research shall disclose such carbon foam manufacturing technology developed with the use of the intellectual property within three (3) months of its completed development;

- (c) **(Touchstone Research Licence):** Touchstone Research grants Carbon Innovations a worldwide non-exclusive, perpetual, non-royalty-bearing licence to use any technology, including patents and know-how, developed jointly by Touchstone Research and Carbon Innovations with the use of the intellectual property purchased by Carbon Innovations under the Asset Purchase Agreement. This licence survives termination of the Licence Agreement; and
- (d) **(Termination):** the Licence Agreement will be in full force and effect until terminated by Carbon Innovations on the occurrence of an event of default by Touchstone Research, provided such default is not cured within 30 days. The Licence Agreement may be terminated by either party upon 90 days' written notice to the other party in the event of a material breach, provided that during the 90 day period, the breach is not cured.

The Licence Agreement otherwise contains terms, conditions and restrictions which are customary for an agreement of its nature.

### 11.3 Sublease Agreement

Carbon Innovations will, at Completion enter into a sublease with Touchstone Research (**Sublease Agreement**) on the following terms and conditions:

- (a) **(Lease):** Ohio Valley Industrial and Business Development Corporation (**Ohio**) entered into various lease agreements with Touchstone Research to lease portions of the buildings located at 1142 Middle Creek Road, Triadelphia, West Virginia (**Millennium Centre**) and the off-site storage location Krasco Building (**Leased Premises**) and to lease equipment including a machining center, a kiln and frames, beams and decking for pallet storage (**Leased Equipment**);
- (b) **(Sub-Lease):** Touchstone Research has agreed to sublease the Leased Premises and Leased Equipment to Carbon Innovations on the same terms and conditions as the lease agreements (**Subleased Property**);
- (c) **(Term):** the term of the Sublease Agreement continues until termination of the underlying lease agreements, unless previously surrendered or terminated under the terms and conditions of the Sublease Agreement. Carbon Innovations may terminate the Sublease Agreement after three (3) years by giving six (6) months' written notice;
- (d) **(Rent):** Carbon Innovations shall pay monthly fixed rent of \$22,378.40 to Touchstone Research during the term of the Sublease Agreement which will be allocated among the Subleased Property; and
- (e) **(Consent):** The Sublease Agreement is conditional on the parties obtaining the prior consent of Ohio. Touchstone Research will seek Ohio's consent in writing to the proposed subletting of the Subleased Property on or prior to Completion.

The Sublease Agreement otherwise contains terms, conditions and restrictions which are customary for an agreement of its nature.

## 11.4 Supply Agreement

Carbon Innovations will, at Completion enter into a supply agreement with Touchstone Research (**Supply Agreement**). A summary of the material terms of the Supply Agreement is set out below:

- (a) **Supply of CFOAM<sub>30</sub>**: in the first year following the date of the Supply Agreement, Carbon Innovations agrees to sell and Touchstone Research agrees to buy a minimum of US\$1,400,000 of CFOAM<sub>30</sub>, being approximately 4,148.15 ft<sup>3</sup> of CFOAM<sub>30</sub>, at \$337.50 per cubic foot. The parties will agree on a delivery schedule for the sale and purchase of this CFOAM<sub>30</sub>;
- (b) **Term**: the Supply Agreement has an initial term of year from the date that it is signed, and will automatically renew for one year unless either party notifies the other in accordance with the Supply Agreement;
- (c) **Additional sales of CFOAM<sub>30</sub>**: if the term of the Supply Agreement is renewed, the parties will negotiate the quantity of CFOAM<sub>30</sub> to be sold and purchased during the further 1 year term, otherwise the Supply Agreement will be automatically terminated. However, any CFOAM<sub>30</sub> supplied after the initial one year term, will be sold at a price that is equal to 90% of Carbon Innovations' lowest catalogue price for CFOAM<sub>30</sub>; and
- (d) **Inventory**: Carbon Innovations agrees to maintain a one month inventory quantity of CFOAM<sub>30</sub> equal to no more than 350 ft<sup>3</sup> of CFOAM<sub>30</sub> at its own expense.

The Supply Agreement otherwise contains terms, conditions and restrictions which are customary for an agreement of its nature.

## 11.5 Agreements with Executives

Refer to Section 4.13 for summary of the Executive Services Agreement and Non-Executive Agreements with the Directors.

## 11.6 Daniel Placha Executive Services Agreement

Carbon Innovations and Daniel Placha have entered into an executive services agreement (**Daniel Placha ESA**) pursuant to which Daniel Placha was appointed as Chief Operating Officer of Carbon Innovations. The key terms and conditions of the Daniel Placha ESA are as follows:

- (a) **(Term)**: Mr Placha's appointment will commence on the first day of that month when Carbon Innovations is conditionally admitted to the official list of the ASX and will continue until validly terminated in accordance with the terms of the Daniel Placha ESA;
- (b) **(Termination)**: the Daniel Placha ESA may be terminated in the following manner and in accordance with US labour law:
  - (i) by Carbon Innovations on not less than one month's notice:
    - (A) if Mr Placha is unable to perform his duties due to incapacitation for two consecutive months' or any periods aggregating more than two months in any 12 month period during the term of his appointment; or

- (B) if Mr Placha becomes of unsound mind or under the control of any committee or officer under law relating to mental health;
  - (ii) by Carbon Innovations on one month's notice in the event that Mr Placha:
    - (A) commits any serious or persistent breach of the Executive Services Agreement and the breach is not remedied within 14 days of the receipt of written notice from Carbon Innovations;
    - (B) is absent or demonstrates incompetence with regards to the performance of his duties;
    - (C) commits or becomes guilty of any gross misconduct; or
    - (D) refuses or neglects to comply with any lawful reasonable direction or order given by Carbon Innovations and has failed to rectify to the satisfaction of Carbon Innovations within 21 business days of receipt of prior notice;
  - (iii) by either party without cause with three months' notice to the other party, or in the case of Carbon Innovations, immediately with payment in lieu of notice;
  - (iv) by either party following material breach of the Daniel Placha ESA; and
  - (v) by Mr Placha if a change of control event occurs, and at any time during the 12 months period following such change of control, Mr Placha resigns from his employment for good reason, he shall be entitled to a payment equal to 12 months;
- (c) **(Remuneration):** US\$150,000 per annum;
  - (d) **(Performance Remuneration):** as part of his remuneration, Mr Placha will be issued 1,250,000 Performance Rights and 1,750,000 Options on the terms and conditions set out in sections 12.4 and 12.6 respectively;
  - (e) **(Bonus):** Carbon Innovations may pay Mr Placha a performance-based bonus at any time during the term of his appointment; and
  - (f) **(Expenses):** Carbon Innovations will reimburse Mr Placha for all reasonable expenses incurred in the performance of his duties in connection with the business of Carbon Innovations.

The Daniel Placha ESA also contains various other terms and conditions that are considered standard for an agreement of this nature.

## 11.7 Jett Mandate

The Company has entered into a mandate with Jett Capital pursuant to which Jett Capital has agreed to act as manager to \$3,000,000 worth of Shares to be issued under the Public Offer (**Jett Mandate**). The key terms of the Jett Mandate are as follows:



- (a) **(Fee):** the Company has agreed to pay Jett Capital:
  - (i) a selling fee equal to 5.0% of the total amount raised by Jett Capital under the Public Offer in cash; and
  - (ii) 750,000 Shares if Jett Capital successfully provides a minimum of 200 ASX accepted shareholder investor names;
- (b) **(Peak Asset Management engagement):** Jett Capital has engaged Peak Asset Management to assist in the provision of 200 ASX accepted shareholder investor names. Peak Asset Management will be paid out of Jett Capital's 5% selling fee;
- (c) **(Expenses):** Jett Capital is entitled to reimbursement of all reasonable preapproved out of pocket expenses incurred in connection with the Jett Mandate; and
- (d) **(Termination):** the parties may terminate the Jett Mandate as follows:
  - (i) at any time by giving 7 days' written notice to the other party. In the event of termination on notice by either party, Jett Capital will be entitled to receive full payment of any out of pocket expenses that have been properly incurred by which have not yet been invoiced or paid;
  - (ii) without notice if either party commits a breach of Jett Mandate which has a material and adverse effect on the other party and fails to remedy that breach within 7 days; or
  - (iii) without notice if an insolvency event occurs.

The Jett Mandate otherwise contains terms, conditions and restrictions which are customary for an agreement of its nature.

## 11.8 Focus Mandate

The Company and Carbon Innovations have entered into a corporate advisory mandate with Focus Capital Partners, LLC (**Focus**) (**Focus Mandate**) pursuant to which Focus has agreed to act as non-exclusive business development, strategy, financial and corporate adviser to the Company and Carbon Innovations. The key terms of the Focus Mandate are as follows:

- (a) **(Fee):** Focus is entitled to receive a one-time advisory fee of up to AU\$90,000 for work performed throughout the first six months of 2016 on the basis that the Company raises AU\$9 million under the Public Offer. In the event that AU\$5 million is raised under the Public Offer, the fee will be AU\$50,000 and on a pro rata basis if between AU\$5 million and AU\$9 million is raised. The fee is only payable when the Company is listed on the ASX and it is expected that payment is to be received no later than 31 July 2016 or as mutually agreed otherwise; and
- (b) **(Retainer):** Focus is entitled to receive a US\$5,000 per month retainer for 12 months from the Company's admission to official quotation on the ASX (**Retainer Period**). The first payment will start from the first day of the month following commencement of the Retainer Period. The retainer will renew automatically for one additional 12 month period unless either party provides written notice of cancellation 30 days prior to expiration.

The Focus Mandate otherwise contains terms, conditions and restrictions which are customary for an agreement of its nature.



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## **12. ADDITIONAL INFORMATION**

### **12.1 Litigation**

As at the date of this Prospectus, the Company is not involved in any legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company.

### **12.2 Rights attaching to Shares**

The following is a summary of the more significant rights attaching to Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

Full details of the rights attaching to Shares are set out in the Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

#### **(a) General meetings**

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with section 249D of the Corporations Act and the Constitution.

#### **(b) Voting rights**

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, at general meetings of Shareholders or classes of Shareholders:

- (i) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (ii) on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- (iii) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the Share, but in respect of partly paid Shares shall have such number of votes as bears the same proportion to the total of such Shares registered in the Shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).

#### **(c) Dividend rights**

Subject to the rights of any preference shareholders and to the rights of the holders of any shares in the Company created or raised under any special arrangement as to dividend, the Directors may from time to time declare a dividend to be paid to the Shareholders entitled to the dividend which shall be payable on all Shares according to the

proportion that the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) in respect of such Shares.

The Directors may from time to time pay to the Shareholders any interim dividends as they may determine. No dividend shall carry interest as against the Company. The Directors may set aside out of the profits of the Company any amounts that they may determine as reserves, to be applied at the discretion of the Directors, for any purpose for which the profits of the Company may be properly applied.

Subject to the ASX Listing Rules and the Corporations Act, the Company may, by resolution of the Directors, implement a dividend reinvestment plan on such terms and conditions as the Directors think fit and which provides for any dividend which the Directors may declare from time to time payable on Shares which are participating Shares in the dividend reinvestment plan, less any amount which the Company shall either pursuant to the Constitution or any law be entitled or obliged to retain, be applied by the Company to the payment of the subscription price of Shares.

(d) **Winding-up**

If the Company is wound up, the liquidator may, with the authority of a special resolution of the Company, divide among the shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he or she considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders.

The liquidator may, with the authority of a special resolution of the Company, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any Shares or other securities in respect of which there is any liability.

(e) **Shareholder liability**

As the Shares under the Prospectus are fully paid shares, they are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

(f) **Transfer of Shares**

Generally, Shares are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act or the ASX Listing Rules.

(g) **Variation of rights**

Pursuant to section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of Shareholders vary or abrogate the rights attaching to Shares.

If at any time the share capital is divided into different classes of Shares, the rights attached to any class (unless otherwise provided by the terms

of issue of the shares of that class), whether or not the Company is being wound up, may be varied or abrogated with the consent in writing of the holders of three-quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

(h) **Alteration of Constitution**

The Constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. In addition, at least 28 days' written notice specifying the intention to propose the resolution as a special resolution must be given.

### 12.3 **Summary of Incentive Performance Rights Plan**

The Company has adopted an Incentive Performance Rights Plan (**Performance Rights Plan**) under which eligible participants may be awarded rights to acquire Shares subject to the achievement of certain performance targets or milestones, usually within a fixed time period.

As at the date of this Prospectus, no Performance Rights have been awarded under the Performance Rights Plan.

The key terms of the Incentive Performance Rights Plan (**Performance Rights Plan**) are set out below:

- (a) The Board may, from time to time, in its absolute discretion, make a written offer to any of the following:
- (i) a Director (whether executive or non-executive) of any Group Company;
  - (ii) a full or part time employee of any Group Company;
  - (iii) a casual employee or contractor of a Group Company to the extent permitted by ASIC Class Order 14/1000; or
  - (iv) a prospective participant, being a person to whom the offer is made but who can only accept the offer if an arrangement has been entered into that will result in the person becoming an Eligible Participant under clauses (a), (b) or (c) above,

**(Eligible Participants).**

- (b) Under the Performance Rights Plan the Board may grant Performance Rights to Eligible Participants with effect from the date determined by the Board, upon the terms set out in the Performance Rights Plan and upon such additional terms and vesting conditions as the Board determines.
- (c) The Board will advise each Eligible Participant of the following minimum information regarding the Performance Rights:
- (i) the maximum number of Performance Rights that the Eligible Participant may apply for, or the formula for determining the number of Performance Rights that may be applied for;

- (ii) the maximum number of Shares that the Eligible Participant is entitled to be issued on the exercise of each Performance Right or the formula for determining the maximum number of Shares;
  - (iii) any applicable vesting conditions;
  - (iv) when unvested Performance Rights will expire (**Expiry Date**);
  - (v) the date by which an offer must be accepted (**Closing Date**); and
  - (vi) any other information required by law or the ASX Listing Rules or considered by the Board to be relevant to the Performance Rights or the Shares to be issued on exercise of the Performance Rights.
- (d) Performance Rights will not be quoted on the ASX, except to the extent provided for by the Performance Rights Plan or unless the offer provides otherwise.
- (e) Subject to clause (h), a Performance Right granted under the Performance Rights Plan will not vest and be exercisable unless the vesting conditions (if any) have been satisfied and the Board has notified the Eligible Participant of that fact.
- (f) The Board must notify an Eligible Participant in writing within 10 Business Days of becoming aware that any vesting conditions attaching to a Performance Right have been satisfied.
- (g) Subject to the Corporations Act, the ASX Listing Rules and the Performance Rights Plan, the Company must issue to the participant or his or her personal representative (as the case may be) the number of Shares the Eligible Participant is entitled to be issued in respect of vested Performance Rights that are exercised, within 10 business days of the Performance Rights being exercised.
- (h) A Performance Right will lapse upon the earlier to occur of:
  - (i) an unauthorised dealing in, or hedging of, the Performance Right occurring, as governed by the Performance Rights Plan;
  - (ii) a vesting condition in relation to the Performance Right is not satisfied by the due date, or becomes incapable of satisfaction, as determined by the Board in its absolute discretion, unless the Board exercises its discretion to vest the Performance Right in accordance with the Performance Rights Plan;
  - (iii) a vested Performance Right is not exercised within the time limit specified in the Performance Rights Plan;
  - (iv) an Eligible Participant (or, where the participant is a nominee of the Eligible Participant, that Eligible Participant) ceases to be an Eligible Participant, unless the Board exercises its discretion to vest the Performance Right in accordance with the Performance Rights Plan;

- (v) the Board deems that a Performance Right lapses due to fraud, dishonesty or other improper behaviour of the holder/Eligible Participant in accordance with the Performance Rights Plan;
  - (vi) the Company undergoes a change of control or a winding up resolution or order is made, and the Board does not exercise its discretion to vest the Performance Right in accordance with the Performance Rights Plan; and
  - (vii) the Expiry Date of the Performance Right.
- (i) The Board may, in its absolute discretion, by written notice to an Eligible Participant, resolve to waive any of the vesting conditions applying to the Performance Rights due to:
- (i) an Eligible Participant or, where the participant is a nominee of an Eligible Participant, that Eligible Participant, ceasing to be an Eligible Participant as a result of:
    - (A) death or total or permanent disability; or
    - (B) retirement or redundancy; or
  - (ii) an Eligible Participant or, where the participant is a nominee of an Eligible Participant, that Eligible Participant, suffering severe financial hardship;
  - (iii) any other circumstance stated in the terms of the relevant offer made to and accepted by the Eligible Participant;
  - (iv) a change of control occurring; or
  - (v) the Company passing a resolution for voluntary winding up, or an order is made for the compulsory winding up of the Company,

in which case, an Eligible Participant (or their personal legal representative where applicable) may exercise any vested Performance Right at any time within one month of the Board notifying that the Performance Right has vested, failing which the Performance Right will lapse, by a signed written notice to the Board specifying the Performance Rights being exercised and providing the certificate for those Performance Rights.

## 12.4 Terms and conditions of Performance Rights

The following is a summary of the key terms and conditions of the Performance Rights which are to be issued to Daniel Placha or his nominee(s):

- (a) **(Vesting):** The Performance Rights shall vest (following which the holder may elect to convert the Performance Rights into Shares) upon satisfaction of the follow:
  - (i) The Performance Rights held by the holder as at the date of issue of the Performance Rights (**Issue Date**) shall convert as follows:

- (A) 750,000 Performance Rights will upon completion of the de-bottleneck of the production of CFOAM process after the capital investment as part of the commercialisation strategy; and
- (B) 500,000 Performance Rights will vest upon the Company's post-Completion cumulative sales volume of CFOAM reaching US\$3,000,000,

provided that in no circumstance will the Performance Rights vest prior to 1 year after the Issue Date.

- (b) **(Conversion):** Each Performance Right will, at the election of the holder, convert into one Share.
- (c) **(Lapse of a Performance Right):** If a Performance Right has not been converted into a Share prior to the date that is 3 years from the Issue Date, the Performance Right will automatically lapse or if the holder of the Performance Right ceases to be an employee of the Company or Carbon Innovations.
- (d) **(Consideration):** The Performance Rights will be issued for nil consideration and no consideration will be payable upon the conversion of the Performance Rights into Shares.
- (e) **(Share ranking):** All Shares issued upon conversion of the Performance Rights will upon issue rank pari passu in all respects with other Shares.
- (f) **(Listing of Shares on ASX):** The Company will not apply for quotation of the Performance Rights on ASX. However, the Company will apply for quotation of all Shares issued upon conversion of the Performance Rights within the period required by ASX.
- (g) **(Timing of issue of Shares on exercise):** Within 15 Business Days after the date that the Performance Rights are exercised, the Company will:
  - (i) allot and issue the number of Shares required under these terms and conditions in respect of the number of Performance Rights exercised;
  - (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
  - (iii) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Performance Rights.
- (h) **(Transfer of Performance Rights):** A Performance Right is not transferable (including encumbering the Performance Rights).
- (i) **(Participation in new issues):** There are no participation rights or entitlements inherent in the Performance Rights and holders will not be

entitled to participate in new issues of capital offered to Shareholders during the currency of the Performance Rights.

- (j) **(Adjustment for reconstruction):** If, at any time, the issued capital of the Company is reorganised (including consolidation, subdivision, reduction or return), all rights of a holder of a Performance Right are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reorganisation.
- (k) **(Dividend and Voting Rights):** A Performance Right does not confer upon the holder an entitlement to vote or receive dividends.
- (l) **(No Other Rights)** The Performance Rights give the holder no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms

## 12.5 Incentive Option Plan

The Company has adopted an Incentive Option Plan (**Option Plan**) under which eligible participants may be awarded rights to acquire Shares on the terms and conditions set out in the Option Plan.

As at the date of this Prospectus, no Options have been awarded under the Option Plan.

The key terms and conditions of the Option Plan are as follows:

- (a) **Eligibility and Grant of Options:** The Board may grant Options (**Plan Options**) to any Director, full or part time employee, or casual employee, consultant or contractor who falls within ASIC Class Order 14/1000 (**Class Order**), of the Company or an associated body corporate (**Eligible Participant**). The Board may also offer Options to a prospective Eligible Participant provided the offer can only be accepted if they become an Eligible Participant. Options may be granted by the Board at any time.
- (b) **Consideration:** Each Plan Option will be granted for no more than nominal cash consideration.
- (c) **Conversion:** Each Plan Option is exercisable into one Share in the Company ranking equally in all respect with the existing issued Shares in the Company.
- (d) **Exercise Price and Expiry Date:** The exercise price and expiry date for Options granted under the Option Plan will be determined by the Board prior to the grant of the Options.
- (e) **Exercise Restrictions:** The Plan Options may be subject to conditions on exercise as may be fixed by the Directors prior to grant of the Plan Options (**Exercise Conditions**). Any restrictions imposed by the Directors must be set out in the offer for the Plan Options.
- (f) **Lapsing of Options:** An unexercised Plan Option will lapse:
  - (i) on its expiry date;
  - (ii) if any Exercise Condition is unable to be met and is not waived, as determined by the Board;



- (iii) on the unauthorised dealing in, or hedging of, the Plan Option;
  - (iv) if the Board deems that the Plan Option lapses due to fraud, dishonesty or other improper behaviour of the Eligible Participant;
  - (v) the Company undergoes a change of control or a winding up resolution or order is made and the Board does not exercise its discretion to vest the Plan Option; or
  - (vi) subject to certain good leaver exceptions, where the Eligible Participant ceases to be an Eligible Participant.
- (g) **Trust:** The Board may, at any time, establish a trust for the sole purpose of acquiring and holding Shares in respect of which an Eligible Participant may exercise, or has exercised, vested Plan Options, including for the purpose of enforcing the disposal restrictions and appoint a trustee to act as trustee of the trust.
- (h) **Disposal of Options:** Plan Options will not be transferable except to the extent the Option Plan or any offer provides otherwise.
- (i) **Quotation of Options:** Plan Options will not be quoted on the ASX, except to the extent provided for by the Option Plan or unless an offer provides otherwise.
- (j) **Disposal of Shares:** The Board may, in its discretion, determine that a restriction period will apply to some or all of the Shares issued on exercise of the Plan Options, up to a maximum of seven (7) years from the date of grant of the Plan Options.
- (k) **Participation in Rights Issues and Bonus Issues:** There are no participating rights or entitlements inherent in the Plan Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Plan Options.
- (l) **Reorganisation:** The terms upon which Plan Options will be granted will not prevent the Plan Options being re-organised as required by the Listing Rules on the re-organisation of the capital of the Company.
- (m) **Limitations on Offers:** The Company must have reasonable grounds to believe, when making an offer in reliance on the Class Order, that the number of Shares to be received on exercise of Plan Options offered under an offer, when aggregated with the number of Shares issued or that may be issued as a result of offers made at any time during the previous 3 year period under an employee incentive scheme covered by the Class Order or an ASIC exempt arrangement of a similar kind to an employee incentive scheme, will not exceed 5% of the total number of Shares on issue at the date of the offer.

## 12.6 Terms and conditions of Options to be issued under the Manager Offer

The key terms and conditions of the Options to be issued under the Manager Offer are as follows:



(a) **Entitlement**

Each Option entitles the holder to subscribe for one Share upon exercise of the Option.

(b) **Number of Options, Exercise Price, Expiry Date and Vesting**

Subject to paragraph (i), the amount payable upon exercise of each Option will be:

- (i) In respect of 1,000,000 Options, the exercise price will be \$0.30 and the expiry date will be 5.00pm (WST) on 30 June 2021. The Options will not vest until 31 December 2017;
- (ii) In respect of 750,000 Options, the exercise price is \$0.50 and the expiry date will be 5.00pm (WST) on 30 June 2021. The Options will not vest until 30 June 2018.

Other than the exercise price, each class of Options to be issued to Daniel Placha (or his nominee(s)) pursuant to the Manager Options will have the same terms and conditions as set out below.

An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(c) **Exercise Period**

The Options, when vested, are exercisable at any time on or prior to the Expiry Date (**Exercise Period**).

(d) **Notice of Exercise**

The Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Option certificate (**Notice of Exercise**) and payment of the exercise price described above in paragraph (b) for each Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

(e) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Option being exercised in cleared funds (**Exercise Date**).

(f) **Timing of issue of Shares on exercise**

Within 15 Business Days after the Exercise Date, the Company will:

- (i) allot and issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared

in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and

- (iii) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

If a notice delivered under (f)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(g) **Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

(h) **Quotation of Shares issued on exercise**

If admitted to the official list of ASX at the time, application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the Options.

(i) **Reconstruction of capital**

If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

(j) **Participation in new issues**

There are no participation rights or entitlements inherent in the Options and Optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.

(k) **Change in exercise price**

An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

(l) **Unquoted**

The Company will not apply for quotation of the Options on ASX.

(m) **Transferability**

The Options are transferable subject to any restriction or escrow arrangements imposed by ASX or under applicable Australian securities laws.

(n) **Employment condition**

If the Optionholder, or if the Optionholder is a nominee, the underlying employee, leaves the employment of the Company or Carbon Innovations then they lapse immediately.

**12.7 Interests of Directors**

Other than as set out in this Prospectus, no Director or proposed Director holds, or has held within the 2 years preceding lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) any property acquired or proposed to be acquired by the Company in connection with:
  - (i) its formation or promotion; or
  - (ii) the Offers; or
- (c) the Offers,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to a Director or proposed Director:

- (d) as an inducement to become, or to qualify as, a Director; or
- (e) for services provided in connection with:
  - (i) the formation or promotion of the Company; or
  - (ii) the Offers.

**12.8 Interests of Experts and Advisers**

Other than as set out below or elsewhere in this Prospectus, no:

- (a) person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- (b) promoter of the Company; or
- (c) underwriter (but not a sub-underwriter) to the issue or a financial services licensee named in this Prospectus as a financial services licensee involved in the issue,

holds, or has held within the 2 years preceding lodgement of this Prospectus with the ASIC, any interest in:

- (d) the formation or promotion of the Company;
- (e) any property acquired or proposed to be acquired by the Company in connection with:
  - (i) its formation or promotion; or
  - (ii) the Offers; or

(f) the Offers,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of these persons for services provided in connection with:

(g) the formation or promotion of the Company; or

(h) the Offers.

BDO Corporate Finance (WA) Pty Ltd has acted as Investigating Accountant and has prepared the Investigating Accountant's Report which is included in section 8 of this Prospectus. The Company estimates it will pay BDO Corporate Finance (WA) Pty Ltd a total of \$12,500 (excluding GST) for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, BDO Corporate Finance (WA) Pty Ltd has not received any fees from the Company for any other services.

Steinepreis Paganin has acted as the solicitors to the Company in relation to the Offers. The Company estimates it will pay Steinepreis Paganin \$107,500 (excluding GST) for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with the ASIC, Steinepreis Paganin has not received fees from the Company for any other services.

Buchanan Ingersoll & Rooney PC has acted as Patent Attorney to Carbon Innovations and has prepared the Intellectual Property Report which is included in section 9 of this Prospectus. Carbon Innovations estimates it will pay Buchanan Ingersoll & Rooney PC a total of US\$5,500 for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, Buchanan Ingersoll & Rooney PC has received fees from Carbon Innovations in the approximate amount of US\$110,000 for other services provided to Carbon Innovations.

Jett Capital has acted as manager to the Public Offer. The Company estimates it will pay Jett Capital a total of \$150,000 (excluding GST) for these services on the basis of \$3,000,000 raised by Jett Capital. During the 24 months preceding lodgement of this Prospectus with the ASIC, Jett Capital has not received any fees from the Company for any other services.

## **12.9 Consents**

Chapter 6D of the Corporations Act imposes a liability regime on the Company (as the offeror of the Securities), the Directors, the persons named in the Prospectus with their consent as proposed directors of the Company, any underwriters, persons named in the Prospectus with their consent having made a statement in the Prospectus and persons involved in a contravention in relation to the Prospectus, with regard to misleading and deceptive statements made in the Prospectus. Although the Company bears primary responsibility for the Prospectus, the other parties involved in the preparation of the Prospectus can also be responsible for certain statements made in it.

Each of the parties referred to in this Section:

(a) does not make, or purport to make, any statement in this Prospectus other than those referred to in this section; and

- (b) in light of the above, only to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this section.

BDO Corporate Finance (WA) Pty Ltd has given its written consent to being named as Investigating Accountant in this Prospectus and the inclusion of the Investigating Accountant's Report in section 8 of this Prospectus in the form and context in which the information and report is included. BDO Corporate Finance (WA) Pty Ltd has not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

BDO Audit (WA) Pty Ltd has given its written consent to being named as auditor to the Company in the Prospectus and to the inclusion of the audited financial information of the Company and Carbon Innovations. BDO Audit (WA) Pty Ltd has not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

Steinepreis Paganin has given its written consent to being named as the solicitors to the Company in this Prospectus. Steinepreis Paganin has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Buchanan Ingersoll & Rooney PC has given its written consent to being named as Patent Attorney for Carbon Innovations in this Prospectus and to the inclusion of the Intellectual Property Report in section 9 of this Prospectus in the form and context in which the information and report is included. Buchanan Ingersoll & Rooney PC has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

Computershare Investor Services Pty Limited has given its written consent to being named as the share registry to the Company in this Prospectus. Computershare Investor Services Pty Limited has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Jet Capital has given its written consent to being named as manager of the Public Offer in this Prospectus. Jet Capital) has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Peak Asset Management Pty Ltd has given its written consent to being named as manager to the Company in this Prospectus. Peak Asset Management Pty Ltd has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

## **12.10 Expenses of the Offers**

The total expenses of the Offers (excluding GST) are estimated to be approximately \$370,000 for minimum subscription or \$415,000 for full subscription and are expected to be applied towards the items set out in the table below:

| <b>Expenses of preparation and lodgement of Prospectus</b> | <b>Minimum Subscription</b> | <b>Full Subscription</b> |
|--|-----------------------------|--------------------------|
| <b>Item of Expenditure</b>                                 | <b>(\$)</b>                 | <b>(\$)</b>              |
| ASX fees   | 43,751                      | 58,751                   |
| ASIC fees  | 2,320                       | 2,320                    |
| Legal Fees – Australia and United States                   | 115,000                     | 115,000                  |

|   |                |                |
|---|----------------|----------------|
| Patent report and due diligence                         | 15,000         | 15,000         |
| Investigating Accountant's Fees<br>including audit fees | 30,000         | 30,000         |
| Prospectus management                                   | 75,000         | 75,000         |
| Corporate advisory                                      | 50,000         | 90,000         |
| Roadshow, printing and distribution                     | 38,929         | 28,929         |
| <b>TOTAL</b>  | <b>370,000</b> | <b>415,000</b> |

| <b>Capital raising<br/>Item of Expenditure</b> | <b>Minimum<br/>Subscription<br/>(\$)</b> | <b>Full<br/>Subscription<br/>(\$)</b> |
|--|--|---------------------------------------|
| Broker Commissions*                            | 250,000                                  | 450,000                               |

\* Broker commissions will only be paid on applications made through a licensed securities dealers or Australian financial services licensee and accepted by the Company (refer to section 5.11 of this Prospectus for further information). The amount calculated is based on 100% of applications being made in this manner. For those applications made directly to and accepted by the Company no broker commissions will be payable and the expenses of the Offers will be reduced and the additional funds will be put towards working capital.

## 12.11 Continuous disclosure obligations

Following admission of the Company to the Official List, the Company will be a "disclosing entity" (as defined in section 111AC of the Corporations Act) and, as such, will be subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company will be required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company's securities.

Price sensitive information will be publicly released through ASX before it is disclosed to shareholders and market participants. Distribution of other information to shareholders and market participants will also be managed through disclosure to the ASX. In addition, the Company will post this information on its website after the ASX confirms an announcement has been made, with the aim of making the information readily accessible to the widest audience.

## 12.12 Electronic Prospectus

Pursuant to Class Order 00/44, the ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with the ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please contact the Company and the Company will send you, for free, either a hard copy or a further electronic copy of this Prospectus or both. Alternatively, you may obtain a copy of this Prospectus from the website of the Company at [www.cfoam.com](http://www.cfoam.com)

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic

Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

### **12.13 Financial Forecasts**

The Directors have considered the matters set out in ASIC Regulatory Guide 170 and believe that they do not have a reasonable basis to forecast future earnings on the basis that the operations of the Company are inherently uncertain. Accordingly, any forecast or projection information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

### **12.14 Clearing House Electronic Sub-Register System (CHES) and Issuer Sponsorship**

The Company will apply to participate in CHES, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHES will be issuer sponsored by the Company.

Electronic sub-registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with statements (similar to a bank account statement) that set out the number of Shares issued to them under this Prospectus. The notice will also advise holders of their Holder Identification Number or Security Holder Reference Number and explain, for future reference, the sale and purchase procedures under CHES and issuer sponsorship.

Electronic sub-registers also mean ownership of securities can be transferred without having to rely upon paper documentation. Further monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month.

### **12.15 Privacy statement**

If you complete an Application Form, you will be providing personal information to the Company. The Company collects, holds and will use that information to assess your application, service your needs as a Shareholder and to facilitate distribution payments and corporate communications to you as a Shareholder.

The information may also be used from time to time and disclosed to persons inspecting the register, including bidders for your securities in the context of takeovers, regulatory bodies including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the share registry.

You can access, correct and update the personal information that we hold about you. If you wish to do so, please contact the share registry at the relevant contact number set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the *Privacy Act 1988* (as amended), the Corporations Act and certain rules such as the ASX Settlement Operating Rules. You should note that if you do not provide the information required on the application for Securities, the Company may not be able to accept or process your application.

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**13. DIRECTORS' AUTHORISATION**

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with Section 720 of the Corporations Act, each Director has consented to the lodgement of this Prospectus with the ASIC.

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**Gary Steinepreis**  
**Non-executive Chairman**  
**For and on behalf of**  
**CFOAM LIMITED**



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## 14. GLOSSARY

Where the following terms are used in this Prospectus they have the following meanings:

**\$** means an Australian dollar.

**Acquisition** means the Company's acquisition of the Assets pursuant to the Asset Purchase Agreement.

**Advisor Offer** has the meaning given in Section 2.3(b).

**Advisors** has the meaning given in Section 2.3(b).

**Applicant** means a person who has submitted an Application Form.

**Application** means an application for securities made on an Application Form.

**Application Form** means the application form attached to or accompanying this Prospectus relating to an Offer.

**ASIC** means Australian Securities & Investments Commission.

**Asset Purchase Agreement** means has the meaning given in Section 11.1.

**Assets** has the meaning given in Section 6.1.

**ASX** means ASX Limited (ACN 008 624 691) or the financial market operated by it as the context requires.

**ASX Listing Rules** means the official listing rules of ASX.

**Board** means the board of Directors as constituted from time to time.

**Carbon Innovations** means Carbon Innovations, LLC (a Delaware limited liability company), a wholly owned subsidiary of the Company.

**CFOAM** means an inorganic carbon material that is manufactured from coal, pitch or lignin feedstock.

**Closing Date** means the closing date of the Offers as set out in the indicative timetable in the Investment Overview in section 3 of this Prospectus (subject to the Company reserving the right to extend the Closing Date or close the Offers early).

**Company** means CFOAM Limited (ACN 611 576 777).

**Completion** means completion of the Asset Purchase Agreement.

**Conditions** means the conditions to the Offers as set out in Section 2.4.

**Consideration Offer** has the meaning given in Section 2.3(a).

**Constitution** means the constitution of the Company.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Directors** means the directors of the Company at the date of this Prospectus.

**Exposure Period** means the period of 7 days after the date of lodgement of this Prospectus, which period may be extended by the ASIC by not more than 7 days pursuant to Section 727(3) of the Corporations Act.

**Group** means the Company and its wholly owned subsidiaries, and **Group Company** means one of them.

**Jett Capital** means Jett Capital Advisors Pty Ltd (ACN 603 930 418).

**Manager Offer** has the meaning given in Section 2.3(c).

**Offers** means the Public Offer and the Secondary Offers.

**Official List** means the official list of ASX.

**Official Quotation** means official quotation by ASX in accordance with the ASX Listing Rules.

**Option** means an option to acquire a Share on the terms and conditions set out in Section 12.7.

**Optionholder** means a holder of an Option.

**Option Plan** has the meaning given in Section 12.5.

**Peak Asset Management** means Peak Asset Management Pty Ltd.

**Performance Rights** means a right to acquire a Share, subject to satisfaction of any performance milestones on the terms and conditions set out in Section 12.4.

**Performance Rights Plan** has the meaning given in Section 12.3.

**Public Offer** means the offer of Shares pursuant to this Prospectus as set out in section 5.1 of this Prospectus.

**Prospectus** means this prospectus.

**Recommendations** has the meaning given in Section 4.11

**Secondary Offers** means the Consideration Offer, the Advisor Offer and the Manager Offer.

**Section** means a section of this Prospectus.

**Securities** means all securities of the Company, including a Share, an Option or a Performance Right (as the context requires).

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means a holder of Shares.

**Supply Agreement** has the meaning given in Section 11.2.

**Touchstone Research** means Touchstone Research Laboratory, Ltd.

**US** means the United States of America.

**US\$** means a United States of America dollar.

**WST** means Western Standard Time as observed in Perth, Western Australia.

**ACN 611 576 777**

This Application Form is important. If you are in doubt as to how to deal with it, please contact your stockbroker or professional adviser without delay. You should read the entire Prospectus carefully before completing this Application Form. To meet the requirements of the Corporations Act, this Application Form must not be distributed unless included in, or accompanied by, the Prospectus.

**A** I/we apply for \_\_\_\_\_  
 \_\_\_\_\_

**C** Individual/Joint applications - refer to naming standards overleaf for correct forms of registrable title(s)

| Title or Company Name | Given Name(s) | Surname |
|-----------------------|---------------|---------|
|                       |               |         |

[illegible][illegible]

**D** Enter the postal address - include State and Postcode

[illegible][illegible]

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### **E** Enter your contact details

| Contact Name |
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(    )

## F CHESS Participant

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| X |  |  |  |  |  |  |  |  |  |
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**Please note** that if you supply a CHES HIN but the name and address details on your form do not correspond exactly with the registration details held at CHES, your application will be deemed to be made without the CHES HIN, and any Shares issued as a result of the Offer will be held on the Issuer Sponsored subregister.

**G** Payment details - Please note that funds are unable to be directly debited from your bank account

|        |               |            |                |                  |
|--------|---------------|------------|----------------|------------------|
| Drawer | Cheque Number | BSB Number | Account Number | Amount of cheque |
|        |               |            |                | A\$              |

**Make your cheque, money order or bank draft payable to 'CFOAM LIMITED'**

- I/we declare that this application is complete and lodged according to the Prospectus dated 20 June 2016, and the declarations/statements on the reverse of this Application Form,
- I/we declare that all details and statements made by me/us (including the declaration on the reverse of this Application Form) are complete and accurate, and
- I/we agree to be bound by the Constitution of CFOAM Limited ('the Company')

See overleaf for completion guidelines ➡

How to complete this form

A

Shares applied for

Enter the number of Shares you wish to apply for. The application must be for a minimum of 10,000 Shares (\$2,000) or a greater number in multiples of 1,000 Shares (\$200). The Offer Price of the Shares is payable in full on Application.

B

Application Monies

Enter the amount of Application Monies. To calculate the amount, multiply the number of Shares by the issue price of \$0.20 per Share. The minimum amount of Application monies is \$2,000 and applications for less than this amount may be rejected.

C

Applicant Name(s)

Enter the full name you wish to appear on the register of Shares and statement of shareholding. This must be either your own name or the name of a company. Up to 3 joint Applicants may register. You should refer to the table below for the correct forms of registrable title. Applications using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHES) participants should complete their name identically to that presently registered in the CHES system.

D

Postal Address

Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

E

Contact Details

Enter your contact details. These are not compulsory but will assist us if we need to contact you regarding this application.

F

CHES

The Company participates in CHES. If you are a CHES participant (or are sponsored by a CHES participant) and you wish to hold Shares allotted to you under this Application on the CHES Subregister, enter your CHES HIN. Otherwise, leave this section blank and on allotment, you will be sponsored by the Company and allocated a Securityholder Reference Number (SRN).

G

Payment

Make your cheque, money order or bank draft payable to **'CFOAM Limited'** in Australian currency and cross it **'Not Negotiable'**. Your cheque, money order or bank draft must be drawn on an Australian Bank.  
Complete the cheque details in the boxes provided. The total amount must agree with the amount shown in box B. **Please note that funds are unable to be directly debited from your bank account.**  
**Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented any may result in your Application being rejected.**  
**Paperclip (do not staple) your cheque(s) to the Application Form. Cash will not be accepted. No receipt for payment will be forwarded to Applicants.**

Before completing the Application Form the Applicant(s) should read this Prospectus to which this Application relates. By lodging the Application Form, the Applicant agrees that this Application for Shares in the Company is upon and subject to the terms of the Prospectus and the Constitution of the Company, agrees to take any number of Shares that may be issued to the Applicant(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign the Application Form.

Lodgement of Application

Application Forms must be received by Computershare Investor Services Pty Limited (CIS) by no later than 5:00pm AWST on 15 July 2016. You should allow sufficient time for this to occur. Return the Application Form with cheque(s) attached to:  
Computershare Investor Services Pty Limited  
GPO Box 52  
MELBOURNE VIC 3001  
Neither CIS nor the Company accepts any responsibility if you lodge the Application Form at any other address or by any other means. If you have any enquiries concerning your application, please contact the Company Secretary, Gary Steinepreis on +61 8 9420 9300.

Privacy Statement

Personal information is collected on this form by CIS for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. In addition, the Company may authorise us on their behalf to send you marketing material or include such material in a corporate communication. You may elect not to receive marketing material by contacting CIS using the details provided on the front of this form or emailing [privacy@computershare.com.au](mailto:privacy@computershare.com.au). We may be required to collect your personal information under the Corporations Act 2001 (Cth) and ASX Settlement Operating Rules. We may disclose your personal information to our related bodies corporate and to other individuals or companies who assist us in supplying our services or who perform functions on our behalf or to third parties upon direction by the Company where related to their administration of your securityholding, or where you have otherwise agreed we may disclose it. Some of these recipients may be located outside Australia, including in the following countries: Canada, India, New Zealand, the Philippines, the United Kingdom and the United States of America. For further details, including how to access and correct your personal information, and information on our privacy complaints handling procedure, please contact our Privacy Officer at [privacy@computershare.com.au](mailto:privacy@computershare.com.au) or see our Privacy Policy at <http://www.computershare.com/au>.

Correct forms of registrable title(s)

Note that ONLY legal entities are allowed to hold Shares. Application Forms must be in the name(s) of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and the surname is required for each natural person. Application Forms cannot be completed by persons less than 18 years of age. Examples of the correct form of registrable title are set out below.

| Type of Investor  | Correct Form of Registration   | Incorrect Form of Registration                         |
|---|--|--|
| Individual: Use given names in full, not initials   | Mr John Alfred Smith   | JA Smith   |
| Company: use the company's full title, not abbreviations  | ABC Pty Ltd  | ABC P/L or ABC Co                                      |
| Joint Holdings: use full and complete names   | Mr Peter Robert Williams & Ms Louise Susan Williams                      | Peter Robert & Louise S Williams                       |
| Trusts: use the trustee(s) personal name(s)   | Mrs Susan Jane Smith<br><Sue Smith Family A/C>                           | Sue Smith Family Trust                                 |
| Deceased Estates: use the executor(s) personal name(s)  | Ms Jane Mary Smith & Mr Frank William Smith<br><Est John Smith A/C>      | Estate of late John Smith<br>or<br>John Smith Deceased |
| Minor (a person under the age of 18): use the name of a responsible adult with an appropriate designation | Mr John Alfred Smith<br><Peter Smith A/C>                                | Master Peter Smith                                     |
| Partnerships: use the partners personal names   | Mr John Robert Smith & Mr Michael John Smith<br><John Smith and Son A/C> | John Smith and Son                                     |
| Long Names  | Mr John William Alexander Robertson-Smith                                | Mr John W A Robertson-Smith                            |
| Clubs/Unincorporated Bodies/Business Names: use office bearer(s) personal name(s)                         | Mr Michael Peter Smith<br><ABC Tennis Association A/C>                   | ABC Tennis Association                                 |
| Superannuation Funds: use the name of the trustee of the fund   | Jane Smith Pty Ltd<br><Super Fund A/C>                                   | Jane Smith Pty Ltd Superannuation Fund                 |