

CFOAM Limited – March Quarter Company Report

Operational Highlights

- For the three-month period ending 31 March 2017, **2,950 production units of CFOAM® and PFOAM™ were manufactured with 1,644 units delivered to customers.**
- Cash receipts from CFOAM® sales from 1 January 2017 to 31 March 2017 totalled **approximately US\$300,000 (AU\$400,000).** Importantly, a significant portion of sales were necessarily deferred while the Company was waiting for the WVDEP permit approval for CFO's newly acquired 3-axis milling machine. As such, no billets could be machine-finished post calcining for ultimate delivery to customers in the absence of the permit – leaving the Company's operational platform materially limited in the March quarter. Pleasingly, with the milling machine now fully operational and permitted, fulfilled customer orders for April to the week beginning April 25th **are already in excess of US\$200,000.** Thus, the sales in April to-date have almost matched sales achieved in the entire March quarter noting that the sales generated for the first full five months of operation up to 31 December 2016 were ~US\$500,000.
- Cash at bank ending 31 March 2017 was approximately US\$2.7 million (AU\$3.6 million). This enables the Company (in the absence of any sales whatsoever) to be funded for multiple quarters – noting that fully loaded static top-down operating cash burn is currently ~US\$170,000 per month.
- The de-bottlenecking of the manufacturing process and systems were completed ahead of schedule, assisting in reducing operating costs and increasing production unit yield and output.
- The PFOAM™ licence agreement was finalised and **15 PFOAM™ production units were successfully manufactured.** The graphitisation of these units at 2,850°C at a toll processing facility was completed in late April, with the first sale and delivery of five billet units of PFOAM™ for product application testing and validation to be completed in early May.
- Positive sales enquiries and validation/testing with potential customers evaluating product applications such as tooling, fire resistance and thermal management are material and ongoing.
- The newly acquired 3-axis automated milling machine has been commissioned and is now fully operational following permit review and approval from West Virginia Department of Environmental Protection (WVDEP). Due to a backlog of work at WVDEP, approval was not granted until mid-March, 4-6 weeks later than expected. Since receiving permit determination approval, the Company has expanded operating hours to

accelerate trim and finish of the inventoried CFOAM® calcined billets to make ready for sale.

- The Company continues to build-up inventory ensuring adequate supply levels of CFOAM® billet stock is on hand to meet forecast customer demand. **A significant current inventory level (WIP and finished) totals 3,985 production units** which will be used to directly fulfil the material expected customer demand in the coming weeks. The previously acquired coal pulveriser unit has now been dismantled and relocated to a new site near CFO's current operations. When fully re-erected (expected completion in the September quarter) the unit will have the throughput capacity to process and supply coal feedstock at many multiples of the current, and future, CFOAM® plant nameplate capacity.
- The Company is continuing to evaluate potential facility expansion sites, permitting requirements, timelines, CAPEX needs, funding/grant and tax provisions in advance of sales activity and customer demand that could rapidly see production requirements eclipsing at-site nameplate capacity in the foreseeable future.
- Senior CFO personnel attended the JEC Composites Conference in Paris and held multiple meetings with important tooling, aerospace and rail customers in Europe.
- The Company also met with the *Conseil Européen pour la Recherche Nucléaire* ("CERN") to discuss details related to PFOAM™ samples to be delivered in May. PFOAM™ will cool the detectors used in sub-atomic particle research. PFOAM's ideal radiation length combined with very high thermal conductivity enables placement of the detector very close to the beam line without interference.

Triadelphia, WV, USA, CFOAM Limited, ("CFO" or "the Company"), through its 100%-owned subsidiary Carbon Innovations LLC ("CIL"), the manufacturer of the carbon foam, CFOAM® and PFOAM™ used for ultra-high end performance engineering materials in the industrial, aerospace, military and commercial product markets, is pleased to report its March Quarterly Company Report.

Tooling and Aerospace Customer Activity

CFOAM® personnel attended the JEC Composites Conference for specialised composite tooling applications. Discussions were held with major composite tooling companies and for other applications to potentially expand the parameters of use.

- The Company has been involved in ongoing discussions concerning the utilisation of CFOAM® for the construction of a very large aircraft component tool, to be manufactured by one of the world's pre-eminent aerospace tooling companies. This

tool will be ultimately used to produce composite wings for new generation aircraft. Each tool would effectively require a minimum of ~15,000ft³ of CFOAM®, and multiple tools would potentially be produced annually. The Company is currently manufacturing a smaller evaluation tool which will be shipped to the customer in the current quarter. If this contract was secured, it would – in isolation – materially eclipse nameplate production thresholds (potentially by several multiples) at the current operational site.

- Discussions are continuing on several fronts regarding the placement of CFOAM® billet inventory remotely on-site, and on consignment, for immediate use in end-user tool applications. Billets would be purchased via open purchase orders (POs).
- CIL is independently receiving tooling manufacture requests, along with the more atypical request for CFOAM® billet supply. CIL will look to outsource such requests to other tooling companies including Touchstone Advanced Composites (“TAC”).
- CFOAM® has the ability to be used in the tooling applications for multiple tool production runs, a distinct advantage over other products.
- Further customer site visits will be undertaken in the near-term by CFO business development personnel, to generate CFOAM® visibility and awareness.

Summary of Select Key Customer and Program Activity

Fire resistance programs – e.g. light rail and subway car applications.

CIL has provided CFOAM® light density panels for testing and validation work. Positive feedback has been received from the initial test work and the panels are being sent for further fire resistance testing. Current active customer interaction in this industry is underway with Milwaukee Composites in the US.

US Navy/Huntington Ingalls

CIL is currently working with the Program’s lead contractors to design final CFOAM® product requirements prior to receiving the schedule for the initial sea trials installation date on the USN’s Aegis-class lead vessel. Following successful completion of this inaugural sea trial, and subsequent adoption as a retrofit program for the entire Aegis-class fleet (approximately 70 vessels), it is expected that the installation program would involve multiple installations per annum over several years. The expected CFOAM® requirement per vessel is to be approximately 3,100 ft³, and CIL has provided delivery and pricing in this first request for quotation (RFQ) for this lead installation.

Energy absorbing applications – for rail transport of hazardous materials.

Ongoing discussions regarding specific program parameters and design elements are continuing with a major governmental body in Europe who is the ultimate customer for this Program.

PFOAM™

The full licence agreement was finalised during the quarter, and production of PFOAM™ has commenced with the first commercial sized calcined billets produced. The final graphitisation process was completed in late-April with the first sale and delivery of PFOAM™ billets to be shipped in early May. Multiple positive sales enquiries and customer testing/validation work are on-going, with varied potential customers including, but not limited to, LED North America, CERN (as mentioned above), and the US DoD/Special Operations Command ("SOCOM").

Additional multi-use program/customer developments for PFOAM™/CFOAM®

- Initial discussions regarding the use of CFOAM® in home and related applications.
- Ongoing discussion regarding the use of CFOAM® and PFOAM™ in space applications.
- Advanced discussions with one of the world's largest manufacturers of residential and commercial homewares considering the use of PFOAM™ as a direct replacement for legacy materials.
- PFOAM™ is flight qualified for space and is currently in use on three (3) satellites as a space radiator. PFOAM™ reduces radiator size by 75%.
- PFOAM™ is 30% more thermally conductive than aluminium at ¼ the weight.

Successful Completion of Critical Platform Upgrades and Maintenance

During the quarter, the Company successfully completed the installation of a new 3-axis, automated milling machine. The milling machine has been fully commissioned, staff training has been completed, and all environmental permit approvals have been obtained from the WVDEP. As referenced earlier, work backlog delays caused by the WVDEP delayed permit determination approval, reduced the ability of the Company to complete the trimming/finishing of a considerable number of CFOAM® calcined billets. The Company is now able to complete fully finished billets for customer delivery.

As previously reported, CIL purchased a coal pulveriser system to control, optimise and vertically integrate the critically important coal feedstock supply chain. This system, historically owned and operated by a 3rd party supplier located some 300 miles from CIL's operations in WV, will now be brought "in-house" to fully control CIL's feedstock supply

ASX ANNOUNCEMENT

28 April 2017

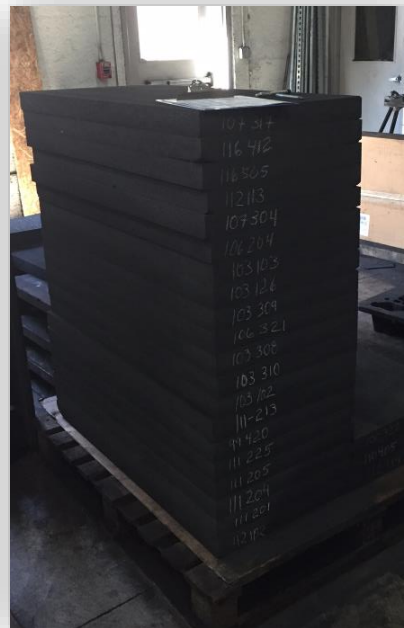


chain. With the necessary permitting completed in the foreseeable future, full operation of this system is expected in the September quarter.

Brief Production Platform Highlights

During the March quarter, production highlights included:

- Continued optimisation work completed on the production platform process.
- Combined joint production of both CFOAM® and PFOAM™ billets in a single production run has been successfully completed
- Unit billet thickness increased with increased unit volume and consistent density
- Per billet direct CFOAM® COGS has been maintained at levels which are materially below those being realised at the time of the Company's IPO last year – i.e. around 35% below historical COGS.



Sold and completed billets using 3 axis milling machine

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Bulk trailer feedstock



Coal pulveriser system – dismantle operations

For further details, please contact:

Michael Placha
Managing Director
E: mplacha@CFOAM.com

Toby Chandler
Non-Executive Director
E: tchandler@CFOAM.com

Gary Steinepreis
Non-Executive Chairman
E: gsteinepreis@CFOAM.com

About CFOAM Limited

On 22 October 2016, CFO, through its wholly owned US subsidiary, Carbon Innovations, LLC (CI), acquired all production plant equipment, intellectual property (including patents and trademarks), leases, inventory, contracts and infrastructure related to the production of carbon foam CFOAM®.

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.

Important Notice

Some of the statements appearing in this announcement may be in the nature of forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industries in which CFO operates and proposes to operate as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets, among other things. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement. No forward looking statement is a guarantee or representation as to future performance or any other future matters, which will be influenced by a number of factors and subject to various uncertainties and contingencies, many of which will be outside CFO's control.

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

CFOAM LIMITED

ABN

46 611 576 777

Quarter ended ("current quarter")

31 MARCH 2017

Reporting is in US\$ being the functional and presentational currency A\$:US\$ rate 0.75 adopted

| Consolidated statement of cash flows | Current quarter \$US'000 | Year to date (9 months) \$US'000 |
|---|-------------------------------------|---|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 299 | 810 |
| 1.2 Payments for | | |
| (a) research and development | - | - |
| (b) product manufacturing and operating costs | (235) | (700) |
| (c) advertising and marketing | - | - |
| (d) leased assets | (67) | (194) |
| (e) staff costs | (214) | (425) |
| (f) administration and corporate costs | (238) | (614) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | - | 2 |
| 1.5 Interest and other costs of finance paid | (4) | (13) |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives | - | - |
| 1.8 Other (provide details if material) | - | - |
| 1.9 Net cash from / (used in) operating activities | (459) | (1,134) |

| | | |
|--|-------|-------|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | (303) | (729) |
| (b) businesses (see item 10) | | - |

| Consolidated statement of cash flows | | Current quarter \$US'000 | Year to date (9 months) \$US'000 |
|--------------------------------------|---|-----------------------------|--|
| | (c) investments | - | - |
| | (d) intellectual property | - | - |
| | (e) other non-current assets | - | - |
| | Acquisition of assets under Asset Purchase Agreement | - | (2,200) |
| 2.2 | Proceeds from disposal of: | | |
| | (a) property, plant and equipment | - | - |
| | (b) businesses (see item 10) | - | - |
| | (c) investments | - | - |
| | (d) intellectual property | - | - |
| | (e) other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | - | - |
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other (provide details if material) | - | - |
| 2.6 | Net cash from / (used in) investing activities | (303) | (2,929) |

| | | | |
|-----------|---|-----------|--------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of shares | - | 6,750 |
| 3.2 | Proceeds from issue of convertible notes | - | - |
| 3.3 | Proceeds from exercise of share options | - | - |
| 3.4 | Transaction costs related to issues of shares, convertible notes or options | 46 | (627) |
| 3.5 | Proceeds from borrowings | - | - |
| 3.6 | Repayment of borrowings | (25) | (50) |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (provide details if material) | - | - |
| 3.10 | Net cash from / (used in) financing activities | 21 | 6,073 |

| | | | |
|-----------|--|-------|---------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of quarter/year to date | 3,434 | 568 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (459) | (1,134) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (303) | (2,929) |

| Consolidated statement of cash flows | | Current quarter \$US'000 | Year to date (9 months) \$US'000 |
|--------------------------------------|---|-----------------------------|--|
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 21 | 6,073 |
| 4.5 | Effect of movement in exchange rates on cash held | 5 | 120 |
| 4.6 | Cash and cash equivalents at end of quarter | 2,698 | 2,698 |

| 5. | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$US'000 | Previous quarter \$US'000 |
|-----|---|-----------------------------|------------------------------|
| 5.1 | Bank balances | 698 | 1,434 |
| 5.2 | Call deposits | 2,000 | 2,000 |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (provide details) | - | - |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 2,698 | 3,434 |

6. Payments to directors of the entity and their associates

| | | |
|-----|---|----|
| 6.1 | Aggregate amount of payments to these parties included in item 1.2 | 50 |
| 6.2 | Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |
| 6.3 | Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2 | |

| Current quarter \$US'000 |
|-----------------------------|
| 50 |
| - |

Relates to managing director remuneration in Carbon Innovations LLC.
Remuneration has been accrued but not paid to the non-executive directors of CFOAM Limited.

**7. Payments to related entities of the entity and their
associates**

| | | |
|-----|---|---|
| 7.1 | Aggregate amount of payments to these parties included in item 1.2 | - |
| 7.2 | Aggregate amount of cash flow from loans to these parties included in item 2.3 | - |
| 7.3 | Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2 | |

| Current quarter \$US'000 |
|-----------------------------|
| - |
| - |

-

| 8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i> | Total facility amount at quarter end \$US'000 | Amount drawn at quarter end \$US'000 |
|--|--|---|
| 8.1 Loan facilities | - | - |
| 8.2 Credit standby arrangements | - | - |
| 8.3 Promissory notes | 4,800 | 4,800 |
| 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well. | | |

On completion of the Asset Purchase Agreement promissory notes were issued as follows:

(i) US\$800,000 promissory note with a term of 5 years and an interest rate of 3% per annum, and which is secured by a first lien security interest over the Assets. Payable monthly on a reducing principal basis.

(ii) US\$4,000,000 promissory note which will accrue interest at 2% per annum and be secured by a second lien security interest over the Assets. This promissory note and any accrued interest is payable as follows:

(A) US\$2,000,000 plus accrued interest is payable within 30 days of post-Completion cumulative sales volume of CFOAM reaching US\$3,000,000;

(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.

| 9. Estimated cash outflows for next quarter | \$US'000 |
|--|-----------------|
| 9.1 Research and development | - |
| 9.2 Product manufacturing and operating costs | 250 |
| 9.3 Advertising and marketing (included in 9.6) | - |
| 9.4 Leased assets | 70 |
| 9.5 Staff costs | 180 |
| 9.6 Administration and corporate costs | 250 |
| 9.7 Other (provide details if material) | - |
| 9.8 Total estimated cash outflows | 750 |

| 10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above) | Acquisitions | Disposals |
|--|---------------------|------------------|
| 10.1 Name of entity | - | - |
| 10.2 Place of incorporation or registration | - | - |
| 10.3 Consideration for acquisition or disposal | - | - |
| 10.4 Total net assets | - | - |
| 10.5 Nature of business | - | - |

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: Signed electronically by a Director

Date: 28 April 2017

Print name: Gary Steinepreis

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.