

## **CFOAM Ltd Secures Multiple, Highly Attractive US State Government Grants and Significantly Strengthens Capital Position, Operational Platform & Sales Pipeline**

- US\$1.2 million, 10-year loan from WVEDA to be received upon completion of important “Phase I” kiln capital project and start-up
- US\$1 million, 5-year loan from WVJIT, including a US\$600,000 bridge loan to be provided during Phase 1 implementation (loan funds to be disbursed subject to WVJIT’s Board final approval at scheduled November meeting)
- Materially larger funding sums will be sought from West Virginia State bodies for Company-defining Phase 2 platform build-out which will see expected annual production capacity grow to 70-80,000cft
- Active orders, validation programs and formal dialogue now ongoing with over thirty independent, major customers, across fifteen different end-use CFOAM® applications
- All areas of CFOAM® production markedly improved and optimized - “legacy issues” inherited from prior operational management have been identified, addressed and resolved – production platform is now back to “business as usual”, and set for material expansion activity in the near-term

**Triadelphia, WV, USA**, CFOAM Limited, (“CFO” or “the Company”), through its 100%-owned subsidiary Carbon Innovations LLC (“CIL”), manufacturer of carbon foams CFOAM® and PFOAM™, used for ultra-high-end performance engineering materials in the industrial, aerospace, military and commercial product markets, is very pleased to provide a detailed business update.

As previously advised in the June quarterly report, a full review of operational platform processes was initiated as a critical and necessary part of the Company’s recent senior operational management transition. This review has already - and successfully - been completed.

Additionally, a detailed scoping study is on-going, concerning:

- a) a full strategic plan for operational platform optimisation and expansion;
- b) a systematic identification of customer and market penetration opportunities for the CFOAM® and PFOAM™ product lines; and
- c) a full review of fixed/variable overhead and optimal use of the Company’s capital structure.

During this study, the Company has, in parallel, been focused on fully optimising current foam product quality and logistics to precisely meet known customer product specifications and delivery timeframes.

**Non-Dilutive Funding for Essential Capital Expansion Programs with West Virginia State Bodies**

As highlighted, the Company has, to be ratified by final board approval and financing documentation, secured highly attractive, non-dilutive funding to finance the Phase 1 capital program from two key State of West Virginia organisations, namely West Virginia Economic Development Agency (“WVEDA”) and West Virginia Jobs Investment Trust (“WVJIT”). This highlights CFO’s extremely favourable geographic and strategic position as a US-based, ASX-listed entity – and the Company’s ability to secure modes of funding, from sources and at terms, that would simply not be available to an overwhelming majority of ASX-listed companies:

- a. US\$1.2 million low-interest 10-year loan from WVEDA upon completion of the project construction and start-up. Obtaining the loan subject to the successful close of the overall project financing.
- b. US\$1 million, 10% 5-year loan from WVJIT, including a US\$600,000 bridge loan during construction. Loan funds to be disbursed subject to approval by WVJIT’s upcoming November Board meeting.

Currently, CFO management are also actively negotiating with several US regional banks to optimise the financing of the Phase 1 (and Phase 2) capital programs through additional non-dilutive funding via traditional bank debt facilities. The Company expects to have all discussions, and defined outcomes of these discussions, completed by the end of November.

**Improvement & Stabilisation of Operational Platform**

The Company has filled all critical, senior personnel positions after a significant restructure of key management. As a direct result, total personnel overhead has been *reduced by 20%*, in conjunction with a demonstrable uplift in human resource quality and performance.

Further, CFO has undertaken significant work focusing directly on foam product quality and other important operational processes, with significant progress made over the past three months:

1. CFO’s plant is now producing demonstrably high-quality products that meet all necessary application requirements. Satisfyingly, this has also been achieved in the more quality-stringent composite tooling applications.
2. Company “culture” and overall platform conditions have been measurably improved – the Company has encouraged and enacted “core operating values” of safety, quality, productivity and cost optimisation (in that order).
3. The major task of ensuring all necessary foam product quality issues are achieved resulted in a transitional, and temporary, effect on CFO’s Q3-17 sales. Recorded sales were at 30-35% of sales achieved in the June quarter, due to almost no foam product shipments in July. However, sales recovered in August and ramped up strongly in September, as the production platform was brought fully back on-line. September produced about 600 units of foam, and the platform is now running consistently near current operational full-capacity.

4. As a result, Q4-17 sales are now projected to be close to the run-rate achieved in the first half of the year, that is 400 to 500 billet units per month. Importantly, shipments to the Company's key strategic partner and tooling customer, Touchstone Advanced Composites ("TAC") have returned to previous levels and CFO recently finalised a term sheet to renew TAC's annual commitment to purchase CFOAM® for composite tooling under the same terms and conditions as previously contracted. This provides CFO with a continual base of CFOAM® demand for specialised tooling applications that is expected to grow measurably over the coming quarters, as well as a close working relationship with TAC to enhance CFOAM®'s penetration into new, multiple composite tooling markets.
5. The Company has also devised a strategy to sell previously manufactured, off-spec foam inventory produced (that does not meet the stringent product performance requirements for composite tooling applications) to other, non-tooling customers. This will further drive near-term revenues in diversified markets, while reducing a significant volume of warehouse inventory.

### **New Strategic Growth Strategy Implemented – Encompassing Sales and Production Plans**

#### **A) Sales Strategy:**

CFO has made important progress in the definition and monitoring of a sales pipeline, for both CFOAM® and PFOAM™ products, with the addition of new customers and applications that will likely contribute to projected sales growth next quarter. The evolving and growing sales pipeline build-up will measurably drive the Company's growth going forward.

Currently, the Company's sales pipeline includes the following categories:

- a. **Category 1 - commercial customers:**
  - *8 customers and 5 main applications* (composite tooling, space, defence, heat dissipation and audio). Per annum sales run-rate of about \$US2 million (and growing).
- b. **Category 2 - customers close to qualification:**
  - *13 customers and 6 main applications* (composite tooling, batteries, fire-resistant panels, space, defence, heat dissipation). Short to medium term annual sales run-rate opportunity is estimated at \$US5 million (and growing). *This category includes CFO's pivotal US Navy application, for which the longer-term market opportunity is highly significant. This program is very much active and on-track, and the Company is awaiting confirmation of the first CFOAM® shipment, expected to take place within the next few weeks.*
- c. **Category 3 - customers performing tests evaluations:**
  - *11 customers and 6 main applications* (composite tooling, cookware, fire resistant materials, transportation, space, defence).

Progress achieved for the September sales pipeline, as compared to that identified in July, is very positive, with several key customers now much closer to a phase of formal commercial qualification. Increasing the number of sales prospects and accelerating the qualification process through the pipeline is a primary goal of the Company.

**B) Production Strategy:**

CFO has also made significant progress in the development of a formalised strategic production platform growth plan, including a clearly-defined phased capital expansion program. Detailed engineering has already been developed and procured for the first two Phases of the program:

- a) **Phase 1:** Capacity expansion from 10,000cft/year to 25,000cft/year. Approximate \$US2.2 million capital cost and a 10-month lead time (*non-dilutive, non-equity funding already secured*). Upon post-Phase 1 completion, at-capacity revenue is expected to be over \$US8 million - with upside.
- b) **Phase 2:** Capacity expansion from 25,000cft/year to 70-80,000cft/year, Approximate \$US12 million cost and a 12-month lead time (*can be run close to parallel with Phase 1 - non-dilutive, non-equity funding to be secured*). Upon post-Phase 2 completion, at-capacity revenue is expected to be \$US24 to 28 million - with upside.
- c) **Phase 3:** Large production capacity scale-up to at least an additional 150,000cft/year (bringing total capacity to circa-225,000cft/year). Greenfield or brownfield site will be identified, 24-30 month lead time (*non-dilutive, non-equity funding to be secured*). Upon post-Phase 3 completion at-capacity revenue is – initially - expected to be of the order of \$US80 million - with substantial upside.

**Investor Relations and Market Communications**

As indicated during the Company's recent investor conference call, CFO management is committed to improving the quality and frequency of communication to investors. A pivotal part of this has been implementing procedures to ensure the Company is in a strong position to deliver upon shareholder expectations. While numerous calls, and site visits in Triadelphia, WV, have taken place over the past two months, the Company will also be conducting an Australian investor roadshow during the second week of October.

**Change of Operating Entity Legal Name**

The Company is pleased to also advise that the legal name of CFO's US operating entity, Carbon Innovations, LLC, ("CIL") will be changed to CFOAM, LLC ("CFL"). This legal name change will be fully completed during the December quarter.

The Board recognises that this change will more correctly align both the ASX-listed holding company and its US-based operating entity from a legal designation and investor/customer perception standpoint. Further, in line with the views expressed by CFO's senior management, many investors have clearly supported the position that CIL's company name is not optimal, does not accurately reflect the underlying business activities that are carried out, and does not fully reflect the wholly-owned subsidiary relationship with the ASX-listed parent.

In conjunction with the very clear positives now being realised in all facets of CFO's business activities, the Company similarly looks forward to a highly positive operating future for CFO's wholly-owned, US-based operating subsidiary under its new banner, CFOAM, LLC.

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### About CFOAM Limited

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

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

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