

CFOAM Limited – September Quarterly Activities Report

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

Commenting on the September quarter, Executive Director of CFOAM Limited, Alain F. Bouruet-Aubertot said: “The September-end quarter was a turning point in the Company’s operations and execution of its growth strategy. Besides turning around our sales and manufacturing operations, we also restructured our organisation and aggressively moved towards the implementation of a phased capacity expansion program that focuses on maximising non-dilutive funding opportunities. Looking forward, our most immediate priorities are to expand our sales pipeline and diversify our markets and customer base while growing at existing accounts, keep improving our manufacturing operations through continuous improvement initiatives and select asset upgrade projects, implement the Phase 1 capacity expansion program while finalising an extensive non-dilutive funding package and, finally, start the detailed engineering studies and vendor negotiations ahead of a decision on the Phase 2 capacity expansion program that is projected to occur during the first half of 2018. Our short-medium term strategy is to maximise our current commercial development potential and production output within the limitation of our current 9,000 cft/year nameplate capacity, while also focusing on cash flow generation. Overall, the Company’s goal is to establish the necessary organisational and operational capability and market positions in order to minimise the time to ramp-up to the 25,000 cft/year capacity that will result from completion of the Phase 1 capital program in August 2018.”

Highlights:

- Cash receipts from CFOAM® and PFOAM™ sales from 1 July 2017 to 30 September 2017 decreased by 62% from the previous quarter to US\$181,000. The decrease was caused by two main factors: a sharp reduction in the number of units sold as a direct result of CFOAM® product quality issues that occurred in the June-end quarter and the impact of lower payables at the beginning of the quarter vs those at the end of September, when product volumes shipped were ramping up.
- For the three-month period ending 30 September 2017, 1,533 production units of CFOAM® and PFOAM™ were manufactured with 546 units delivered to customers.
- Reduced sales to Touchstone Advanced Composites (TAC) accounted for the shortfall, as a direct consequence of product quality issues. There were no shipments in July, before sales resumed in August and ramped up in September, to

reach a level of two thirds the average TAC sales level that was recorded in the first half of the year.

- In addition to lower cash receipts, non-recurring expenses, including employment termination costs, as per contractual and legal obligations, and pre-engineering kiln studies completed in preparation of the Phase 1 capital expansion program, caused cash flow from operating activities to be negative US\$598,000 in the current quarter.
- Operating issues resolved - Product quality issues were addressed head on, by restoring a set of core operating values (“safety, quality, productivity and cost optimization”, in that order), with the result of products meeting the more stringent specifications of the composite tooling application being produced consistently in the latter part of the quarter.
- As a direct result of sharply reduced shipments, current inventory increased, from 4,252 units to a total of 5,575 production units. While part of the finished product inventory does not meet some of our customers’ requirements in the composite tooling market specifications, we anticipate selling this “off-spec” product inventory to other applications over the coming months.
- Shipments to customers were down from 1,561 units in the last quarter to 546 units, a 65% decline.
- CFO’s confidence in being able to resume shipments to TAC to past volume levels was underscored by the signing of a term sheet between the companies in September (final agreement is currently being negotiated). It would extend the annual 4,100 units take-or-pay supply agreement for another year.
- A sales pipeline was established in order to measure the progress in developing new applications and customers and monitor the progress made in upgrading accounts from testing, to qualification, to commercial status.
- As the consequence of a high-priority focus on the sales pipeline, a comparison of the pipeline development progress between the end of June and the end of the quarter demonstrated very solid growth in both the number of new accounts and applications, in all stages of commercial product qualification.
- As an illustration of this result, CFO’s second largest customer is now a major aerospace and tooling company, with which business is expanding after the first shipments that took place during the quarter.
- Some of the new and existing applications have a very large market potential, including the US Navy program, for which CFO expects a purchase order for a first product shipment to occur in the near future.
- An organizational restructure of CFO has brought some major changes, with more than 50% of the roles and positions changing, bringing a greater capability at a lower cost. At the end of September, there were no vacant positions.

- The strengthening of the organisational capability also included the retention of highly experienced industry and market experts through consulting agreements, including the appointment of Brian Joseph as the Senior Scientific Advisor.
- On CFO's growth strategy front, some major milestones were attained: the development of a phased growth strategy, with detailed engineering scoping and cost estimates that were developed for Phases 1 and 2 of the capacity expansion, and the successful application for non-dilutive funding from the State of West Virginia (WVEDA and WVJIT).
- Improved investor relations were an important focus for the Company's management and board of directors. In addition to a conference call that was held in early August, numerous conference calls and meetings were held with investors, culminating in the execution of an investor road show in Australia that took place in early October. The Company's upgraded Company website also went live in early October.

Outlook

- Continued progress of commercial development activities – CFO expects a continuing ramp-up of shipments of CFOAM® and PFOAM™ to customers, including both to TAC and, also, other existing customers as well as new accounts. This ramp-up will allow us to soon reach levels close to the run-rate achieved in the first half of the year.
- Continued month-over month progress of the sales pipeline at the end of October, with the following composition as compared to that at the end of September:
 - **Category 1 – commercial customers:** 10 customers (+2) in 7 main applications (+2) (composite tooling/aerospace, space, defence, lighting/heat dissipation, audio, composite tooling/boats and electronics). Per annum sales run-rate in excess of \$2 million, and growing through increased market penetration at existing customers' business.
 - **Category 2 – customers close to qualification:** 13 customers in 8 main applications (+2) (composite tooling, batteries, fire-resistant parts, space, defence, heat dissipation, transportation and electric conductivity). Short to medium term annual sales run-rate opportunity (12 to 18 months timeframe) is estimated to be in excess of US\$5 million. This category includes CFO's pivotal US Navy application for which the long-term market opportunity is highly significant: a purchase order for the first CFOAM® shipment to Touchstone Research Laboratory (TRL) is expected to occur at any time in the near future.
 - **Category 3 – customers performing tests evaluation:** 12 customers (+1) in 8 main applications (+2) (composite tooling, cookware, fire resistant materials, transportation, space, defence, construction and water filtration)

- Continuous improvement at manufacturing operations – An increasing number of continuous enhancement initiatives focused on quality and productivity improvement, such as increased quality control testing and optimisation of key process parameters, are being implemented on an-going basis.
- Negotiations on the non-dilutive financing package are expected to be finalised by the end of November, as a number of discussions with banks are currently taking place, in order to complement the funding to be provided by the WV state organizations, WVEDA and WVJIT, for the financing of our Phase 1 expansion program.
- CFO's successful capital raise in October now enables the Company to both upgrade its existing operations and accelerate the execution of its growth strategy. The initiatives that are being implemented include the following:
 - The implementation of equipment upgrades projects, such as the refurbishing of an existing smaller kiln, out of operation since the early part of the year, which is projected to be completed during the December quarter. The added capacity will boost total production capacity by about 15%, thus enabling the company to reach its current 9,000 cft/year nameplate capacity.
 - The construction of a coal pulveriser in Blairsville, PA, for which the lease, construction and operations & maintenance agreement negotiations are currently in their final stage. This coal grinding operation will enable the Company to control the physical and chemical characteristics of its coal supply, thus allowing a better quality control and better access to a broader range of CFOAM® products, particularly as it relates to its ability to produce the lower-density CFOAM20 product, which has been limited so far. We expect construction to start in November, for a production start-up during the first quarter of 2018.
 - The decision to go ahead with the implementation of the Company's Phase 1 capacity expansion program right away, before securing all potential non-dilutive funds (while still getting the whole benefit of the funding), starting with ordering the kiln that is on the critical path of that project.
 - The strengthening of key management positions, especially in the sales and business development area, in order to boost the Company's commercial development capability ahead of the completion of its Phase 1 capacity expansion program that is scheduled for August 2018.

ASX ANNOUNCEMENT

31 October 2017



Management conference call

The Company wishes to advise shareholders that Mr Bouruet-Aubertot will be hosting an investor conference on Monday, November 6th at 10:30am (AEST). Mr Bouruet-Aubertot and the CFO Board are committed to improving shareholder engagement moving forward. Therefore, all CFO shareholders are encouraged to dial in – and in the interests of logistics, shareholders with relevant questions should email them ahead of time to Simon Hinsley (simon@nwrcommunications.com.au). Call details will be released to the ASX separately.

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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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