

1. Company details

Name of entity: CFOAM Limited
 ABN: 46 611 576 777
 Reporting period: For the year ended 30 June 2018

2. Results for announcement to the market

	30 June 2018 US\$	30 June 2017 US\$	Movement
Revenues from operations	1,010,812	1,517,569	33% ↓
Loss from continuing activities after income tax	(3,511,954)	(1,695,331)	107% ↑ loss
Total Comprehensive Loss for the period	(3,551,994)	(1,744,335)	104% ↑ loss

Dividends

There were no dividends declared or paid in the period.

Comments

The results include non-recurring items and capital repairs and maintenance.

During the year, the Company reached a number of key milestones:

- upgraded and strengthened the manufacturing operations and supply chain management, resulting in enhanced coal sourcing capability, improved product quality and increased productivity.
- commercial development activities accelerated and are starting to generate growing sales at new accounts.
- enhanced the organizational capability
- completed the turnaround phase that was initiated a year ago.

As a result, the Company has the necessary foundations to successfully ramp up sales and manufacturing operations following the start-up of our new Phase 1 kiln in July, while, at the same time, the Company is entering into the final planning phase of a Phase 2 expansion that will further triple our production capacity.

3. Net tangible assets

	30 June 2018 Cents
Net tangible assets per ordinary security	<u><u>2.6</u></u>

4. Control or Loss gained over entities

The Group did not gain control or lose control over any entities in the period.

5. Joint ventures

The Group is not involved in any joint ventures.

6. Audit status

The preliminary final report is based on accounts which have been audited.

7. Attachments

Details of attachments (if any):

The Preliminary Final Report of CFOAM Limited for the year ended 30 June 2018 is attached.

8. Signed

Lodged electronically

Gary Steinepreis
Director
Perth

Date: 31 August 2018



ACN 611 576 777

Financial Report
CFOAM Limited and its controlled entity
For the year ended 30 June 2018

CORPORATE DIRECTORY

Directors

Gary Steinepreis
Non-Executive Chairman

Alain Bouruet-Aubertot
Executive Director

Toby Chandler
Non-Executive Director

Todd Hoare
Non-Executive Director

Company Secretary

Gary Steinepreis

ASX Code

CFO

Solicitors

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

Registered Office

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Share Registry

Computershare Investor Services Pty
Limited

Level 11, 172 St George's Terrace
Perth WA 6000

Investor enquiries: 1300 557 010

Telephone: +61 8 9323 2000

Facsimile: +61 8 9323 2033

Auditor

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

CFOAM LIMITED
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CFOAM LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2018

The Director's present their report, together with the financial report of CFOAM Limited and its wholly owned subsidiary CFOAM, LLC (formerly Carbon Innovations, LLC) (**Group**) for the year ended 30 June 2018 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

Directors

The names of the directors in office at any time during or since the end of the year are:

Gary Steinepreis

Toby Chandler

Todd Hoare

Alain Bouruet-Aubertot – appointed 7 July 2017.

Michael Placha – resigned 7 July 2017.

Particulars of each director's experience and qualifications are set out later in this report.

Principal activity

The principal activity of the Group is the commercialisation of the CFOAM business. CFOAM® products are an inorganic carbon material that is manufactured from coal, pitch or lignin feedstock. CFOAM® products manufactured in this process have a rigid foam structure, similar in appearance to pumice stone, but with entirely different properties. CFOAM® products are 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® products were developed to meet the growing demand for ultra-high-end performance engineering materials in the industrial, aerospace, military and commercial product markets.

Financial results

The financial results of the Group for the year ended 30 June 2018 are presented in US\$:

	30 June 2018
Cash and cash equivalents (US\$)	1,879,092
Net assets (US\$)	7,653,903
Total revenue from operations (US\$)	1,010,812
Loss after income tax (US\$)	(3,511,954)

Review of operations

The Group continued to engage in its principal activity, the results of which are disclosed in the following financial statements.

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

Significant changes in state of affairs

There have been no significant changes in the state of affairs of the group to the date of this report, not otherwise disclosed in this report.

After balance date events

In July 2018, CFOAM, LLC successfully commissioned and started up its new high-capacity kiln. The overall Phase 1 expansion program also included other capital investment items, including some new panel cutting and finishing equipment. Other than this work, there have been no other matters or circumstances, which have arisen since 30 June 2018 that have significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2018, of the Group, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2018, of the Group.

Likely developments and expected results of operation

The Group is proceeding with the commercial strategy for CFOAM products.

Environmental regulation

The Group's operations up to 30 June 2018 are not regulated by any significant environmental regulation laws other than operating within certain limits of Hazardous Air Pollutants at its manufacturing operations in West Virginia to ensure no environmental issues occur.

Dividends paid, recommended and declared

No dividends were paid or declared since the start of the period. No recommendation for payment of dividends has been made.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 21 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

CFOAM LIMITED
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The directors are of the opinion that the services as disclosed in note 21 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Information Relating to Directors and Company Secretary

Gary Steinepreis

Chair (Non-executive)

Qualifications and Experience

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 manufacturing industries.

Interest in Shares

3,240,436

Special Responsibilities

Company Secretary

Directorships held in other listed entities during the three years prior to the current year

Current

Helios Energy Ltd since 4 June 2010

Taruga Gold Limited since 15 July 2016

Lachlan Star Limited since 18 January 2018

Former

AVZ Minerals Limited 30 November 2012 to 21 August 2017

ShareRoot Ltd 16 June 2009 to 12 January 2016

Norseman Gold Plc 3 December 2007 to 9 March 2016

Alain Bouruet-Aubertot

Executive director

Qualifications and Experience

Mr. Bouruet-Aubertot holds a Master of Science in petroleum economics from the French Petroleum Institute (ENSPM) and a Master of Science in Chemical Engineering from National Chemical Engineering Institute in Paris (ENSCP).

Mr. Bouruet-Aubertot's past roles include President, Chief Executive Officer and Managing Director, Minteq International, Inc ("Minteq") which grew to a US\$400m revenue per year subsidiary of NYSE listed Minerals Technology Inc. ("MTX") at the time of his departure.

MTX is a leading global supplier of mineral-based refractory materials and systems, metallurgical and advanced carbon products. At MTX Mr. Bouruet-Aubertot role included directing 1,300 employees and twenty manufacturing plants on six continents, with full responsibility for business strategy and P&L. Previous to Minteq, Mr. Bouruet-Aubertot was the Corporate

CFOAM LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2018

Senior Vice President & President of the Gypsum Division of Lafarge North America, a US-based publicly-traded construction materials and building products company. Under Mr. Bouruet-Aubertot's leadership, the gypsum division grew, over a 5 year period, from inception, to a US\$500 million asset base business. Earlier in his career, Mr. Bouruet-Aubertot worked for Rhone Poulenc S.A., a global France-based chemicals company, where, during his tenure, he held senior management positions of increasing responsibility in Europe and the US.

More recently, Mr. Bouruet-Aubertot has worked with private equity investors on deal flow analysis and due diligence activities, and has held executive and board director roles at portfolio companies, including President and CEO of CCSM Materials Inc. a venture capital-backed ceramic materials company.

Interest in Shares 100,000

Interest in Performance Rights 3,350,000

Special Responsibilities Nil

Directorships held in other listed entities during the three years prior to the current year Nil

Toby Chandler

Non-executive director

Qualifications and Experience 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.

Interest in Shares 6,050,000

Special Responsibilities Nil

Directorships held in other listed entities during the three **Current**

CFOAM LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2018

years prior to the current year	Structural Monitoring Systems plc since 2 May 2011
Todd Hoare	Non-executive director
Qualifications and Experience	Mr Hoare holds a Bachelor of Commerce and Bachelor of Science (Mathematics) degree from the University of NSW. He has extensive capital markets experience - including fund raising, valuation and trading - across the globe, including Hong Kong, New York and Sydney.
Interest in Shares	1,165,000
Interest in Performance Rights	150,000
Special Responsibilities	Nil
Directorships held in other listed entities during the three years prior to the current year	Nil
Michael Placha	Managing Director – resigned 7 July 2017
Qualifications and Experience	Mr Placha has worked on various international projects throughout his 40-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.

Meetings of Directors

During the financial year, a total of 11 meetings of directors (there were no committees of directors) were held. Attendances by each director during the year were as follows

	Number eligible to attend	Number attended
Gary Steinepreis	11	11
Alain Bouruet-Aubertot	11	11
Toby Chandler	11	11
Todd Hoare	11	11
Michael Placha	-	-

Remuneration Report (Audited)

The principles adopted by the Board are set out under the following main headings:

- (1) Principles used to determine the nature and amount of remuneration
- (2) Details of remuneration
- (3) Employment contracts of Directors and Senior Executives
- (4) Performance rights remuneration
- (5) Other transactions with Key Management Personnel

The information provided under headings 1 to 4 above includes remuneration disclosures that are required under section 300A of the Corporations Act 2001.

1 Principles used to determine the nature and amount of remuneration

CFOAM LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2018

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered.

The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- (i) competitiveness and reasonableness;
- (ii) acceptability to shareholders;
- (iii) performance linkage / alignment of executive compensation;
- (iv) transparency; and
- (v) capital management.

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' and program participants' interests:

- (i) focuses on sustained growth in shareholder wealth;
- (ii) attracts and retains high calibre executives;
- (iii) rewards capability and experience; and
- (iv) provides a clear structure for earning rewards.

The Company is in a development phase and is focussed on implementing this strategy whilst continue to grow its earnings. The financial report covers 2017 and 2018 – 2017 was the first full year of operations since the acquisition of the CFOAM business.

Remuneration Governance

Fees and payments to directors and key management personnel reflect the demands and responsibilities of the positions and are in line with the general market and the financial condition of the Group. There are no minimum or maximum amounts. There is no remuneration committee. Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which will be periodically recommended for approval by shareholders. The maximum currently stands at \$300,000 per annum as per the Group's constitution and may be varied by ordinary resolution of the shareholders in general meeting. The entire board which comprises four directors are responsible for remuneration packages. The Directors believe this is satisfactory given the size and complexity of Company operations.

Use of Remuneration Consultants

Remuneration consultants were not used in the establishment of remuneration packages in 2017 or 2018.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The Company is in a development phase and is currently making a loss from operations. This will require the raising of additional capital and or debt as indicated in the financial report. No relationship exists between the Company performance, earnings, shareholder wealth and Directors' and Executive Remuneration for this financial period and the previous 2 financial periods.

The remuneration for the years ended 30 June 2017 and 30 June 2018 is detailed below. The Company has also established a performance rights plan and employee share option plan and intends to utilise this to incentive management and directors, subject to shareholder approval, if required. Whilst not directly linked to Company performance, the rights vest on various milestones that are designed to align executive remuneration with shareholder interests. Note 4 in the remuneration report refers to performance related remuneration.

No dividends have been declared or paid during the financial year and there has been no return of capital. The Company's securities are traded on the ASX.

CFOAM LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2018

Comments and Voting at Annual General Meeting

At the 2017 Annual General Meeting the Company remuneration report was passed by the requisite majority of shareholders (100% by a show of hands).

2 Details of Remuneration

The key management personnel of the Group, during the year, were:

Directors:	Position:	Date Appointed	Date Resigned
Alain Bouruet-Aubertot	Executive Director	7 July 2017	-
Gary Steinepreis	Chair (Non-executive) / Company Secretary	30 March 2016	-
Toby Chandler	Non-executive director	16 May 2016	-
Todd Hoare	Non-executive director	16 June 2017	-
Michael Placha	Managing Director/CEO	30 March 2016	7 July 2017
Daniel Placha	Chief Operating Officer	1 July 2016	14 July 2017

The remuneration is detailed below and no bonuses have been paid for the period.

	Cash salary and fees US\$	Short term employment benefits Medical insurance – employer and employee US\$	Employee entitlement accrual US\$	Equity settled US\$	Termination payments US\$	Post- employment 401K US\$	Total US\$
2018							
<i>Non-Executive Directors:</i>							
Gary Steinepreis	37,115	-	-	-	-	-	37,115
Toby Chandler	37,115	-	-	-	-	-	37,115
Todd Hoare	37,115	-	-	898 ¹	-	-	38,013
<i>Executive Directors:</i>							
Alain Bouruet-Aubertot	100,240	3,711	5,770	64,793 ¹	-	-	174,514
Michael Placha	-	557 ²	-	-	172,838 ²	18,000 ²	191,395
<i>Other Key Management Personnel:</i>							
Daniel Placha	19,664	1,411	-	-	-	-	19,664
	231,249	5,679	5,770	65,691	172,838	18,000	499,227

Note 1: The equity settled is performance rights remuneration – refer note 3 and 4 below. Alain Bouruet-Aubertot's performance rights remuneration is 37% of his total remuneration and Todd Hoares' performance rights remuneration is 2% of his total remuneration.

Note 2: Michael Placha resigned on 7 July 2017 and these payments were made on his resignation

CFOAM LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2018

	Short term employment benefits					
	Cash salary	Medical insurance –	Employee	Equity	Post-	Total
	and fees	employer and	entitlement	settled	employment	
	US\$	employee	accrual	US\$	401K	US\$
2017		US\$	US\$			
<i>Non-Executive Directors:</i>						
Gary Steinepreis	36,182	-	-	-	-	36,182
Toby Chandler	36,182	-	-	-	-	36,182
Todd Hoare	1,508	-	-	-	-	1,508
<i>Executive Directors:</i>						
Michael Placha	181,311	22,296	11,538	-	12,000	227,145
<i>Other Key Management Personnel:</i>						
Daniel Placha	134,518	14,106	5,769	-	11,250	165,643
	389,701	36,402	17,307	-	23,250	466,660

3 Employment Contracts of Directors and Senior Executives

Alain Bouruet-Aubertot - Executive Director – CFOAM, LLC

Effective date: 7 July 2017 to 1 November 2017

Remuneration: A\$100,000 per annum, subject to review based on time commitment

Effective date: 1 November 2017-onwards

Remuneration: US\$150,000 per annum

Notice by the individual/company:

With reason: 1 month by the Company

By the Executive: 3 months notice by the Executive

Without reason: 3 months notice and 3 months payment in lieu or if Company determines to dispense with notice period - 6 months. Performance rights remuneration lapses in all notice situations.

Performance rights remuneration, approved by shareholders for a total of 3,350,000 performance rights to vest as follows, subject to remaining an Eligible Participant:

- 100,000 Class H Performance Rights vest and become exercisable upon full commissioning of Phase 1 with start up on or before 15 August 2018 (Performance Rights are reduced by 20% per month of delay (pro-rata))
- 120,000 Class I Performance Rights will vest and become exercisable upon the Company achieving three concurrent monthly sales of 1,666cft pm – equating to 80% of monthly annual nameplate capacity potential of 2,083cft pm – on or before 31 December 2018 (Performance Rights are reduced by 33% per month of delay (pro-rata))
- 150,000 Class J will vest and become exercisable upon full commissioning of Phase 2 with start up on or before 1 April 2019 ((Performance Rights are reduced by 20% per month of delay (pro-rata))
- 180,000 Class K Performance Rights will vest and become exercisable upon the Company achieving three concurrent monthly sales of 4,800cft pm – equating to 80% of monthly annual nameplate capacity potential of 6,000cft pm – on or before 30 September 2019 ((Performance Rights are reduced by 33% per month of delay (pro-rata))
- 300,000 Class L Performance Rights will vest and become exercisable upon the installation of additional autoclave and/or kiln capacity (as extension of Phase 2 – ON SITE) which lifts confirmed nameplate capacity to at least 100,000cft pa on or before 31 December 2019

CFOAM LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2018

- 750,000 Class A performance rights - 30 day volume weighted average share price (VWAP) for the shares on ASX is \$0.60 or higher from the date of issue
- 750,000 Class B performance rights - 30 day VWAP for the shares on ASX is \$0.90 or higher from the date of issue
- 500,000 Class C performance rights - 30 day VWAP for the shares on ASX is \$1.05 or higher from the date of issue
- 500,000 Class D performance rights - 30 day VWAP for the shares on ASX is \$1.20 or higher from the date of issue

Non-Executive Director Agreements - Toby Chandler, Todd Hoare and Gary Steinepreis

Fees: Directors fees of US\$37,115 per annum

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.

Terms and conditions: 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.

Todd Hoare - Performance rights remuneration, approved by shareholders, for a total of 150,000 performance rights to vest as follows, subject to remaining an Eligible Participant:

- 75,000 Class A performance rights - 30 day volume weighted average share price (VWAP) for the shares on ASX is \$0.60 or higher from the date of issue
- 75,000 Class B performance rights - 30 day VWAP for the shares on ASX is \$0.90 or higher from the date of issue

4 Performance Rights Remuneration

Following shareholder approval at the Annual General Meeting, Alain Bouruet-Aubertot was issued with a total of 3,350,000 performance rights under milestones A to D and H to L and Todd Hoare was issued with 150,000 performance rights under milestones A and B. Refer to Note 3 above.

Ordinary shareholdings

Details of equity instruments held directly, indirectly, or beneficially by directors and key management personnel and their related parties are as follows:

2018 Name	Held at 1/7/2017	Shares acquired	Other changes	Balance 30/6/2018
Directors:				
Alain Bouruet-Aubertot	-	100,000	-	100,000
Gary Steinepreis	3,000,000	240,436	-	3,240,436
Toby Chandler	5,000,000	1,050,000	-	6,050,000
Todd Hoare	1,165,000	-	-	1,165,000
Michael Placha	12,000,000	-	(12,000,000) ¹	-
Key management personnel:				
Daniel Placha	-	-	-	-
Total	21,165,000	1,390,436	(12,000,000)	10,555,436

Note 1 - Michael Placha resigned on 7 July 2017.

**CFOAM LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2018**

Other securities

Details of equity instruments held directly, indirectly, or beneficially by directors and key management personnel and their related parties are as follows:

2018 Name	Held at 1/7/2017	Other changes	Performance rights granted	Balance 30/6/2018	Vested & Exercised	Unvested
Directors:						
Alain Bouruet-Aubertot	-	-	3,350,000	3,350,000	-	3,350,000
Gary Steinepreis	-	-	-	-	-	-
Michael Placha	-	-	-	-	-	-
Toby Chandler	-	-	-	-	-	-
Todd Hoare	-	-	150,000	150,000	-	150,000
Key management personnel:						
Daniel Placha	3,000,000	(3,000,000) ¹	-	-	-	-
Total	3,000,000	(3,000,000)	3,500,000	3,500,000	-	3,500,000

Note 1 - Daniel Placha resigned on 14 July 2017 and the performance consideration has been forfeited.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

End of the audited remuneration report.

A copy of the auditor's independence declaration as required by Section 307C of the Corporations Act 2001 is included in this Financial Report.

This report is made in accordance with a resolution of the Directors on 31 August 2018.



**Gary Steinepreis
Director
West Perth
31 August 2018**

DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF CFOAM LIMITED

As lead auditor of CFOAM Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of CFOAM Limited and the entity it controlled during the period.



Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 31 August 2018

CFOAM LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	30-June-18 US \$	30-June-17 US \$
Revenue			
Revenue from operations		1,010,812	1,517,569
Other income		6,484	2,459
		1,017,296	1,520,028
Expenses			
Raw materials and consumables used		(1,017,000)	(861,257)
Inventory writedown	6	(402,802)	-
Legal fees		(16,675)	(60,579)
Accounting and audit fees		(43,669)	(55,218)
Australian securities exchange fees		(48,013)	(65,729)
Travel and associated costs		(183,533)	(135,040)
Other expenses		(264,387)	(295,531)
Professional services		(587,196)	(319,660)
Employee salaries, consulting and benefits expense		(807,896)	(550,253)
Share based payments	14	(123,780)	-
Depreciation and amortisation expense		(937,594)	(798,399)
Finance costs		(96,705)	(73,526)
		(4,529,250)	(3,215,192)
Loss from continuing operations before income tax		(3,511,954)	(1,695,164)
Income tax expense	20	-	(167)
Loss from continuing operations after income tax		(3,511,954)	(1,695,331)
Other comprehensive loss, net of tax			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(40,040)	(49,004)
Total comprehensive loss for the year		(3,551,994)	(1,744,335)
Loss per share			
Basic loss per share	26	(\$0.03)	(\$0.02)
Diluted loss per share	26	(\$0.03)	(\$0.02)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

CFOAM LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Notes	30-June-18 US \$	30-June-17 US \$
ASSETS			
Current assets			
Cash and cash equivalents	17	1,879,092	2,181,239
Trade and other receivables	5	182,146	125,422
Inventories	6	1,198,592	664,994
Total current assets		3,259,830	2,971,655
Non-current assets			
Property, plant and equipment	7	5,569,874	3,247,310
Intangibles	8	4,631,773	5,190,450
Total non-current assets		10,201,647	8,437,760
TOTAL ASSETS		13,461,477	11,409,415
LIABILITIES			
Current Liabilities			
Trade and other payables	9	886,980	378,004
Borrowings	10	2,535,838	2,060,000
Total current liabilities		3,422,818	2,438,004
Non-current liabilities			
Borrowings	11	2,384,756	2,493,401
Total non-current liabilities		2,384,756	2,493,401
TOTAL LIABILITIES		5,807,574	4,931,405
NET ASSETS		7,653,903	6,478,010
EQUITY			
Issued capital	12	13,078,310	8,453,426
Reserves	13	13,959	(49,004)
Accumulated losses	18	(5,438,366)	(1,926,412)
TOTAL EQUITY		7,653,903	6,478,010

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes.

CFOAM LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

Consolidated	Issued capital US\$	Reserves US\$	Accumulated losses US\$	Total equity US\$
Balance at 1 July 2017	8,453,426	(49,004)	(1,926,412)	6,478,010
Loss after income tax expense for the year	-	-	(3,511,954)	(3,511,954)
Other comprehensive income for the year, net of tax	-	(40,040)	-	(40,040)
Total comprehensive loss for the year	-	(40,040)	(3,511,954)	(3,551,994)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity	4,836,546	-	-	4,836,546
Costs of contributions of equity	(211,662)	-	-	(211,662)
Share based payments	-	103,003	-	103,003
Balance at 30 June 2018	<u>13,078,310</u>	<u>13,959</u>	<u>(5,438,366)</u>	<u>7,653,903</u>

Consolidated	Issued capital US\$	Reserves US\$	Accumulated losses US\$	Total equity US\$
Balance at 1 July 2016	663,170	-	(231,081)	432,089
Loss after income tax expense for the year	-	-	(1,695,331)	(1,695,331)
Other comprehensive income for the year, net of tax	-	(49,004)	-	(49,004)
Total comprehensive loss for the year	-	(49,004)	(1,695,331)	(1,744,335)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity	8,551,531	-	-	8,551,531
Costs of contributions of equity	(761,275)	-	-	(761,275)
Balance at 30 June 2017	<u>8,453,426</u>	<u>(49,004)</u>	<u>(1,926,412)</u>	<u>6,478,010</u>

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

CFOAM LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	30-June-18 US \$	30-June-17 US \$
Cash flows from operating activities			
Receipts from customers		988,850	1,203,477
Payments to suppliers and employees		(3,474,113)	(2,766,522)
Interest received		6,484	2,459
Interest and other finance costs paid		(98,610)	(73,526)
Net cash used in operating activities	17	(2,577,389)	(1,634,112)
Cash flows from investing activities			
Payment for purchase of assets of Touchstone Research Laboratory, Ltd		-	(2,000,000)
Payments for property, plant and equipment		(2,701,479)	(844,371)
Net cash used in investing activities		(2,701,479)	(2,844,371)
Cash flows from financing activities			
Proceeds from the issue of shares		4,821,190	6,873,300
Costs of the offer		(211,662)	(486,343)
Repayment of borrowings		(1,560,237)	(99,932)
Proceeds from borrowings		1,927,430	-
Net cash provided by financing activities		4,976,721	6,287,025
Net increase / (decrease) in cash and cash equivalents		(302,147)	1,808,542
Cash and cash equivalents at the beginning of the financial year		2,181,239	365,840
Effects of exchange rate changes on cash and cash equivalents		-	6,857
Cash and cash equivalents at the end of the financial year	17	1,879,092	2,181,239

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

CFOAM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements and notes represent those of CFOAM Limited and its wholly owned subsidiary, CFOAM, LLC (formerly Carbon Innovations, LLC) (**Group**) for the year ended 30 June 2018.

The separate financial statements of the parent entity, CFOAM Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The financial statements were authorised for issue on 31 August 2018 by the directors of the Company.

Basis of Preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Comparative information

This report presents the financial information for the year ended 30 June 2018 and comparative information for the year ended 30 June 2017.

Functional and presentation currency

The functional currency of each entity within the Group is measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in United States dollars, which is the functional currency of CFOAM, LLC, from 1 July 2016.

a) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (CFOAM Limited) and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has one wholly owned subsidiary being CFOAM, LLC.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

b) *Going concern*

For the year ended 30 June 2018 the Group recorded a loss from continuing operations after income tax of US\$3,511,954 (2017: US\$1,695,331) and had net cash outflows from operating activities of US\$2,577,389 (2017: US\$1,634,112) and net current liabilities of US\$162,988.

The ability of the entity to continue as a going concern is dependent on securing additional funding through raising of debt or equity to continue to fund the development activities and expansion of its business platform. The Group has one major customer that contributed approximately 87% of sales revenue.

These conditions indicate a material uncertainty that may cast a significant doubt about the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors have reviewed the Group's financial position and are of the opinion that there are sufficient funds to meet the entity's working capital requirements and as at the date of this report.

The financial statements have been prepared on the basis that the entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- The Group currently has sufficient cash resources to fund its requirements currently;
- The directors expect the Group to be successful in securing additional funds through debt or equity issues, when and if required.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

c) *New, revised or amending Accounting Standards and Interpretations adopted*

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the current reporting period.

Any significant impact on the accounting policies of the Group from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. Refer to Note 2.

d) *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.

e) *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 Group that remain unpaid.

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

f) Asset acquisition

Asset acquisitions do not constitute a business combination, the assets and liabilities are assigned carrying amounts based on their relative fair value in an asset acquisition and no deferred tax will arise in relation to the acquired assets and assumed liabilities.

On 20 October 2016, CFOAM, LLC (formerly Carbon Innovations, LLC) (100% subsidiary of CFOAM) acquired assets from Touchstone Research Laboratory, Ltd by the issue of shares, cash and promissory notes. Director's judgement was required to be used in classifying this transaction as an asset acquisition rather than a business combination. As the acquisition of the acquired assets is not a deemed business combination, the transaction must be accounted for as a share based payment for the net assets acquired.

When an asset acquisition does not constitute a business combination, the asset and liabilities are assigned a carrying amount based on their relative fair values in an asset purchase transaction. No goodwill will arise on the acquisition.

Director's judgment was required in classifying the transaction as an asset acquisition rather than a business combination.

g) Share based payments

The Group measures the cost of equity settled transactions with employees by reference to the fair value of equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. A probability of the achievement of performance conditions is assigned and the share based payment expense is recognised over the estimated vesting period. The accounting estimates and assumptions relating to equity-settled share based payments may impact profit or loss and equity.

The Group, in the prior year, issued equity for the asset acquisition and capital raising costs. The fair value for recognition or disclosure purposes was measured as the fair value based on the price that the shares were issued under the prospectus being the principal market.

h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate proportion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of actual costs.

i) Intangible assets

Intangible assets acquired, other than goodwill, are initially measured at their relative 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 amortisation 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. The development asset is amortised over a useful life of 15 years and customer contract over a 12 month period.

j) Revenue and Other Income

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods. All revenue is stated net of the amount of sales tax.

k) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value.

Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Profit and Loss and Other Comprehensive Income. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

l) Property, plant and equipment

The Company records Assets under Construction and the depreciation of these items commences when the asset is commissioned.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Office equipment	1-5 years
Plant and equipment	10-15 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

m) Borrowings and Borrowing Costs

Loans and borrowings, including promissory notes, 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.

General and specific borrowing costs that are directly attributable to Assets under Construction are capitalised during the period of time until the asset is commissioned and operating at normal capacity.

Other borrowing costs are expensed in the period in which they are incurred.

n) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt (promissory note) less principal payments and amortisation.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired.

o) 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.

p) 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.

q) 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.

r) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability.

No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a

CFOAM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

s) Foreign Currency Translation

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position are translated at the closing rate at the date of the statement of financial position;
- (ii) Income and expenses for each Statement of Profit or Loss and Other Comprehensive Income are translated at the average exchange rate for the period being reported on; and
- (iii) All resulting exchange differences are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in the foreign currency translation reserve, if material. When a foreign operation is sold the associated exchange differences are reclassified to the Statement of Profit or Loss and Other Comprehensive Income as part of the gain or loss on sale.

t) Trade & other receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

NOTE 2: ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT OPERATIVE AT 30 JUNE 2018

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the reporting period ended 30 June 2018. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

(a) New Accounting Standard for Application in Future Periods

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial years ended 30 June 2018. They have not been adopted in preparing the financial statements for the year ended 30 June 2018 and are expected to impact the entity in the period of initial application. In all cases the entity intends to apply these standards from application date as indicated below.

Financial Instruments

AASB reference: AASB 9 (issued December 2014)

Application date: Annual reporting periods beginning on or after 1 January 2018

CFOAM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Classification and measurement

Nature of Change: AASB 9 amends the classification and measurement of financial assets:

- Financial assets will either be measured at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL).
- Financial assets are measured at amortised cost or FVTOCI if certain restrictive conditions are met. All other financial assets are measured at FVTPL.
- All investments in equity instruments will be measured at fair value. For those investments in equity instruments that are not held for trading, there is an irrevocable election to present gains and losses in OCI. Dividends will be recognised in profit or loss.

The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9:

- Classification and measurement of financial liabilities, and
- Derecognition requirements for financial assets and liabilities.

However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.

Impact on Initial Application: This standard is not expected to have a material impact on the Group.

Impairment

Nature of Change: The new impairment model in AASB 9 is now based on an 'expected loss' model rather than an 'incurred loss' model.

A complex three stage model applies to debt instruments at amortised cost or at fair value through other comprehensive income for recognising impairment losses.

A simplified impairment model applies to trade receivables and lease receivables with maturities that are less than 12 months.

For trade receivables and lease receivables with maturity longer than 12 months, entities have a choice of applying the complex three stage model or the simplified model.

Impact on Initial Application: This standard is not expected to have a material impact on the Group.

Hedge accounting

Nature of Change: Under the new hedge accounting requirements:

- The 80-125% highly effective threshold has been removed
- Risk components of non-financial items can qualify for hedge accounting provided that the risk component is separately identifiable and reliably measurable
- An aggregated position (i.e. combination of a derivative and a non-derivative) can qualify for hedge accounting provided that it is managed as one risk exposure
- When entities designate the intrinsic value of options, the initial time value is deferred in OCI and subsequent changes in time value are recognised in OCI or capitalised into the cost of the hedged item
- When entities designate only the spot element of a forward contract, the forward points can be deferred in OCI and subsequent changes in forward points are recognised in OCI. Initial foreign currency basis spread can also be deferred in OCI with subsequent changes be recognised in OCI or capitalised into the cost of the hedged item
- Net foreign exchange cash flow positions can qualify for hedge accounting.

Impact on Initial Application: This standard is not expected to have a material impact on the Group.

Revenue from Contracts with Customers

AASB reference: AASB 15 (issued December 2014)

CFOAM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Nature of Change: An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue.

Application date: Annual reporting periods beginning on or after 1 January 2018

Impact on Initial Application: The entity has not yet made a detailed assessment of the impacts of applying the new standard but does not expect that this standard will have a material impact on the Group.

Leases

AASB reference: AASB 16 (issued February 2016)

Nature of Change: AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases. There are some optional exemptions for leases with a period of 12 months or less and for low value leases. Lessor accounting remains largely unchanged from AASB 117.

Application date: Annual reporting periods beginning on or after 1 January 2019.

Impact on Initial Application: To the extent that the entity, as lessee, has significant operating leases outstanding at the date of initial application, 1 July 2019, right-of-use assets will be recognised for the amount of the unamortised portion of the useful life, and lease liabilities will be recognised at the present value of the outstanding lease payments. Thereafter, earnings before interest, depreciation, amortisation and tax (EBITDA) will increase because operating lease expenses currently included in EBITDA will be recognised instead as amortisation of the right-of-use asset, and interest expense on the lease liability. However, there will be an overall reduction in net profit before tax in the early years of a lease because the amortisation and interest charges will exceed the current straight-line expense incurred under AASB 117 Leases. This trend will reverse in the later years. There will be no change to the accounting treatment for short-term leases less than 12 months and leases of low value items, which will continue to be expensed on a straight-line basis.

(b) Adoption of New and Revised Accounting Standards

During the year, the Group Entity adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory. The adoption of these standards has not significantly impacted the recognition, measurement and disclosure of the transactions of the Group Entity and its consolidated financial statements for the financial year ended 30 June 2018.

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. 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

Asset acquisitions do not constitute a business combination, the assets and liabilities are assigned carrying amounts based on their relative fair value in an asset acquisition and no deferred tax will arise in relation to

CFOAM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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the acquired assets and assumed liabilities. Director's judgment was required in classifying the transaction as an asset acquisition rather than a business combination.

Share based payments

The group measures the cost of equity settled transactions with employees by reference to the fair value of equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. A probability of the achievement of performance conditions is assigned and the share based payment expense is recognised over the estimated vesting period. The accounting estimates and assumptions relating to equity-settled share based payments may impact profit or loss and equity.

Intangibles

The development asset being the CFOAM product was acquired as part of the asset acquisition in the prior year. The intangible is subsequently amortised on a straight line basis over its estimated useful life. The group estimates the useful life of the asset to be 15 years. The actual useful life may be shorter or longer than 15 years, depending on the technical innovations and competitor actions.

Inventory

The Group in the prior year allowed for an inventory reserve which represents an estimate of re-work costs to existing work-in-progress billet units. There is currently no inventory reserve recorded. A percentage of completion method was used to value Work in Progress inventory. As in the past, a total cost per unit is calculated. This cost is then applied to the inventory on a percentage of completion basis. Depending on the manufacturing state that the material is in, it supplied a percentage of completion. The calculated cost is then applied to the inventory using its percentage of completion, thus properly valuing the inventory as it progresses through the manufacturing process.

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 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.

NOTE 4. OPERATING SEGMENTS

Identification of reportable operating segments

The Group is organised into one operating segment, being the operation of production of CFOAM. This is based on the Internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

As a result, the operating segment information is as disclosed in the statements and notes to the financial statements throughout the report.

Geographical information

All sales and non-current assets are based in the USA.

Major customer

The Group has one major customer that contributed approximately 87% (2017:over 90%) of sales revenue.

CFOAM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 5. CURRENT ASSETS

	Consolidated	
	30 June 2018	30 June 2017
	US\$	US\$
TRADE AND OTHER RECEIVABLES		
Prepayments	38,235	46,419
Trade and other receivables	143,911	79,003
	<u>182,146</u>	<u>125,422</u>

NOTE 6. CURRENT ASSETS

	Consolidated	
	30 June 2018	30 June 2017
	US\$	US\$
INVENTORIES		
Finished goods	92,824	143,643
Raw materials	13,090	39,359
Work in progress	1,092,678	555,999
Inventory reserve	-	(74,007)
	<u>1,198,592</u>	<u>664,994</u>

Note:

- (i) There are no interest or finance costs included in inventories.
- (ii) Amounts recognised in profit and loss – writedowns of inventories to net realisable value amounted to \$402,802 (2017-nil). These were recognised as an expense during the period during the year ended 30 June 2018 and included in the profit or loss.

NOTE 7. NON-CURRENT ASSETS

	Consolidated	
	30 June 2018	30 June 2017
	US\$	US\$
PROPERTY, PLANT AND EQUIPMENT		
Assets in course of construction	2,911,792	266,074
Plant and equipment - at cost	3,016,825	2,961,064
Less: Accumulated depreciation	(493,588)	(148,000)
	<u>2,523,237</u>	<u>2,813,064</u>
Manufacturing use assets - at cost	205,751	205,751
Less: Accumulated depreciation	(70,906)	(37,579)
	<u>(134,845)</u>	<u>168,172</u>
Total property, plant and equipment - at cost	6,134,368	3,432,889
Less: Accumulated depreciation	(564,494)	(185,579)
	<u>5,569,874</u>	<u>3,247,310</u>

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Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial year are set out below:

	Assets in course of construction US\$	Plant and equipment US\$	Manufacturing use US\$	Total US\$
Consolidated				
Balance at 1 July 2017	266,074	2,813,064	168,172	3,247,310
Additions	2,645,718	55,761	-	2,701,479
Disposals	-	-	-	-
Depreciation expense	-	(345,588)	(33,327)	(378,915)
Balance at 30 June 2018	2,911,792	2,523,237	134,845	5,569,874

NOTE 8. INTANGIBLES

	Consolidated	
	30 June 2018	30 June 2017
	US\$	US\$
Customer contract - at cost	570,371	570,371
Less: Accumulated amortisation	(570,371)	(380,248)
	-	190,123
Development asset - at cost	5,232,900	5,232,900
Less: Accumulated amortisation	(601,127)	(232,573)
	4,631,773	5,000,327
Total Intangibles - at cost	5,803,271	5,803,271
Less: Accumulated amortisation	(1,171,498)	(612,821)
	4,631,773	5,190,450

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial year are set out below:

	Development Asset US\$	Customer Contract US\$	Total Intangibles US\$
Consolidated			
Balance at 1 July 2017	5,000,327	190,123	5,190,450
Amortisation expense	(368,554)	(190,123)	(558,677)
Balance at 30 June 2018	4,631,773	-	4,631,773

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The Development Asset refers to the acquired business assets for the production and sales of CFOAM including but not limited to the acquired patents (Intellectual Property Assets), all permits, machinery and equipment maintenance files, customer lists, customer purchasing histories, price lists, distribution lists, supplier lists, production data, quality control records and procedures, customer inquiry files, research and development files, records and data, sales material and records, strategic plans, internal financial statements, marketing and promotional surveys all relating to the business.

NOTE 9. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated	
	30 June 2018	30 June 2017
	US\$	US\$
Trade creditors	724,737	187,477
Accruals	162,243	190,527
	<u>886,980</u>	<u>378,004</u>

NOTE 10. CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	30 June 2018	30 June 2017
	US\$	US\$
Loan payable – secured	1,927,430	-
Promissory notes – secured	608,408	2,060,000
	<u>2,535,838</u>	<u>2,060,000</u>

Refer to note 11 for further information on assets pledged as security and financing arrangements.

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NOTE 11. NON-CURRENT LIABILITIES - BORROWINGS

	Consolidated	
	30 June 2018	30 June 2017
	US\$	US\$
Promissory notes – secured	<u>2,384,756</u>	<u>2,493,401</u>

Assets pledged as security:

Under the Asset Purchase Agreement, as amended, promissory notes remaining issued are as follows:

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

Loan facility – Summit finance package with the secured assets pledged being the assets acquired as part of the Phase 1 expansion plan:

	Balance at 30	Total Facility	
	June 2018	US\$	
	US\$	US\$	Interest rate
Secured bridge loan-Summit Community Bank	599,987	600,000	4.99%
Secured bridge loan – Summit Community Bank	327,443	600,000	6.49%
West Virginia Jobs Investment Trust (WVJIT)	<u>1,000,000</u>	<u>1,000,000</u>	10%
	<u>1,927,430</u>	<u>2,200,000</u>	

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NOTE 12. ISSUED CAPITAL

	Consolidated			
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	Shares	Shares	A\$	A\$
Ordinary shares - fully paid	<u>116,207,143</u>	<u>93,500,000</u>	<u>17,113,113</u>	<u>11,091,554</u>

		30 June 2018	30 June 2017
		US\$	US\$
Ordinary shares - fully paid	<u>116,207,143</u>	<u>13,078,310</u>	<u>8,453,426</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	US\$
Balance	1 July 2016	37,512,500		663,170
Issue of shares	20 October 2016	1,800,000	US\$0.15	274,932
Issue of shares	20 October 2016	9,187,500	US\$0.15	1,403,299
Issue of shares	20 October 2016	45,000,000	US\$0.15	6,873,300
Cost of the contribution of capital		-		(761,275)
Balance	30 June 2017	<u>93,500,000</u>		<u>8,453,426</u>
Balance	1 July 2017	93,500,000		8,453,426
Issue of shares – placement	30 October 2017	12,500,000	US\$0.276	3,447,408
Issue of shares – employee incentive	30 October 2017	50,000	US\$0.276	13,790
Issue of shares – placement	19 April 2018	10,157,143	US\$0.135	1,375,348
Cost of the contribution of capital				(211,662)
Balance	30 June 2018	<u>116,207,143</u>		<u>13,078,310</u>

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

NOTE 13. RESERVES

	Consolidated	
	30 June 2018	30 June 2017
	US\$	US\$
Share based payment reserve – performance rights	103,003	-
Foreign currency reserve	(89,044)	(49,004)
	<u>13,959</u>	<u>(49,004)</u>

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Movements in reserves

	Consolidated	
	30 June 2018	30 June 2017
	US\$	US\$
Share based payment reserve – performance rights		
Balance at beginning of period	-	-
Share based payment expense for the period	103,003	-
Balance at the end of the period	<u>103,003</u>	<u>-</u>

	Consolidated	
	30 June 2018	30 June 2017
	US\$	US\$
Foreign currency reserve		
Balance at beginning of period	(49,004)	-
Movement for the period	(40,040)	(49,004)
Balance at the end of the period	<u>(89,044)</u>	<u>(49,004)</u>

Nature and Purpose of Reserves

(1) Share based payment reserve – performance rights and options

The share based payment reserve is used to recognise the fair value of performance rights and options issued to employees but not converted into ordinary shares. The reserve is recognised in contributed equity when and if the relevant milestone is attained within the specified period and as a result the performance rights and options concerned convert to ordinary shares.

(3) Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to United States dollars.

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NOTE 14 SHARE BASED PAYMENTS

During the year the Company issued various performance rights and options to directors, consultants and staff. The performance rights and options are a performance-based remuneration incentive which provides the opportunity for the participant to become a shareholder in the Company and deliver long-term shareholder returns.

	Milestone	Number	Amount expensed US\$	Total fair value US\$	Share price at grant date US\$	Volatility
Performance rights						
Employee Incentive plan – Note 1	-	50,000	15,894	15,894	0.315	-
Approved by shareholders						
Performance Rights	A	825,000	8,169	70,366	0.257	20%
Performance Rights	B	825,000	1,708	14,713	0.257	20%
Performance Rights	C	500,000	450	3,877	0.257	20%
Performance Rights	D	500,000	225	1,938	0.257	20%
Performance Rights	E	166,666	22,330	43,292	0.257	-
Performance Rights	F	166,667	11,827	43,292	0.257	-
Performance Rights	G	166,667	8,037	43,292	0.257	-
Performance Rights	H	100,000	21,344	25,975	0.257	-
Performance Rights	I	120,000	13,350	24,936	0.257	-
Performance Rights	J	150,000	10,177	23,378	0.257	-
Performance Rights	K	180,000	5,927	18,702	0.257	-
Performance Rights	L	300,000	4,342	15,585	0.257	-
		4,050,000	123,780	345,240		

Note 1 – The Company issued 300,000 performance rights under the employee incentive plan during the period but these were forfeited due to staff resignations.

	Milestone	Number	Amount expensed US\$	Total fair value US\$	Share price at grant date A\$	Volatility
Employee share options						
Employee Incentive option plan	Exercise price A\$0.295 on or before-2 January 2023	135,000	-	869	0.18	20%

Fair value of performance rights granted

The fair value of the performance rights classes E to L and those issued under the employee incentive plan was based on the share price on the date of issue of these various classes of performance rights.

The fair value of the performance rights classes A to B were determined by an appropriate valuation model using:

- Volatility of 20% based on historical 30 day VWAP volatility
- Risk free rate of 2.13%
- Dividend yield of nil
- a 5 year term

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Milestone:

- (i) **(Class A):** Class A Performance Rights shall vest and become exercisable on and from the date the Company's 30 day Volume Weighted Average Share Price (**VWAP**) on the ASX is equal or greater than \$0.60 from the date of issue;
- (ii) **(Class B):** Class B Performance Rights vest and become exercisable on and from the date the Company's 30 day VWAP on the ASX is equal or greater than \$0.90 from the date of issue;
- (iii) **(Class C):** Class C Performance Rights vest and become exercisable on and from the date the Company's 30 day VWAP on the ASX is equal or greater than \$1.05 from the date of issue;
- (iv) **(Class D):** Class D Performance Rights vest and become exercisable on and from the date the Company's 30 day VWAP on the ASX is equal or greater than \$1.20 from the date of issue;
- (v) **(Class E):** Class E Performance Rights vest and become exercisable on and from 15 January 2019;
- (vi) **(Class F):** Class F Performance Rights vest and become exercisable on and from 15 January 2020;
- (vii) **(Class G):** Class G Performance Rights vest and become exercisable on and from 15 January 2021;
- (viii) **(Class H):** Class H Performance Rights vest and become exercisable upon full commissioning of Phase 1 with start up on or before 15 August 2018 (Performance Rights are reduced by 20% per month of delay (pro-rata));
- (ix) **(Class I)** Class I Performance Rights will vest and become exercisable upon the Company achieving three concurrent monthly sales of 1,666cft pm – equating to 80% of monthly annual nameplate capacity potential of 2,083cft pm – on or before 31 December 2018 (Performance Rights are reduced by 33% per month of delay (pro-rata));
- (x) **(Class J)** Class J Performance Rights will vest and become exercisable upon full commissioning of Phase 2 with start up on or before 1 April 2019 ((Performance Rights are reduced by 20% per month of delay (pro-rata));
- (xi) **(Class K)** Class K Performance Rights will vest and become exercisable upon the Company achieving three concurrent monthly sales of 4,800cft pm – equating to 80% of monthly annual nameplate capacity potential of 6,000cft pm – on or before 30 September 2019 ((Performance Rights are reduced by 33% per month of delay (pro-rata));
- (xii) **(Class L)** Class L Performance Rights will vest and become exercisable upon the installation of additional autoclave and/or kiln capacity (as extension of Phase 2 – ON SITE) which lifts confirmed nameplate capacity to at least 100,000cft pa on or before 31 December 2019, (each a **Vesting Condition**).

Lapse

If the Vesting Condition is not achieved by the required date or the Conversion Notice not given to the Company by the required date or the Holder is no longer an Eligible Participant, then the relevant Performance Right will automatically lapse.

Eligible Participant

- (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;
- (iv) a prospective participant, being a person to whom an offer is made but who can only accept an offer if an arrangement has been entered into that will result in the person becoming an Eligible Participant under paragraphs (i), (ii) or (iii) above; or
- (v) a person who is declared by the Board to be eligible to receive grants of Performance Rights.

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NOTE 15. COMMITMENTS

	Consolidated	
	30 June 2018	30 June 2017
	US\$	US\$
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	295,450	266,650
One to five years	120,621	288,871
More than five years	-	-
	<u>416,071</u>	<u>555,521</u>

Commitments:

On 29 March 2016, the Group 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**).

The consideration under the Asset Purchase Agreement, as amended, was US\$6,800,000 and 9,187,500 ordinary shares in the Company were issued as part of the IPO. The cash consideration has been paid as follows:

- (i) US\$2,200,000 on settlement;
- (ii) CFOAM, LLC (formerly Carbon Innovations, LLC) issued 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. Payable monthly on a reducing principal basis;
- (iii) CFOAM, LLC issued a US\$3,800,000 promissory note, as amended, which accrues interest at 2% per annum and be secured by a second lien security interest over the assets acquired under the APA. This promissory note and any accrued interest is payable as follows:
 - (A) US\$1,000,000 plus accrued interest was paid on or before 31 October 2017;
 - (C) US\$450,000 plus all unpaid accrued interest was paid on or before 30 April 2018;
 - (D) US\$450,000 plus all unpaid accrued interest is payable on or before 15 January 2019; and
 - (E) US\$1,900,000 plus all unpaid accrued interest is payable in full on or before 15 December 2019.

NOTE 16. RELATED PARTY TRANSACTIONS

Following shareholder approval at the Annual General Meeting, Alain Bouruet-Aubertot was issued with a total of 3,335,000 performance rights under milestones A to D and H to L and Todd Hoare was issued with 150,000 performance rights under milestones A and B.

CFOAM, LLC is a wholly owned subsidiary (100%) of CFOAM. Transactions between the entities are eliminated upon consolidation.

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Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	30 June 2018	30 June 2017
Services provided by directors and key management personnel and recognised as an expense	US\$	US\$
Short term employee benefits	415,536	443,410
Post-employment benefits	18,000	23,250
Share based payments	65,691	-
	499,227	466,660

Detailed remuneration disclosures with regard to the amounts paid to directors are provided in the audited remuneration report in the directors' report.

NOTE 17. CASH AND CASH EQUIVALENTS

(a) Reconciliation to cash at the end of the period

	Consolidated	
	30 June 2018	30 June 2017
	US\$	US\$
Cash at bank and in hand	1,879,092	2,181,239

(b) Reconciliation of net loss after income tax to net cash flows used in operating activities

	Consolidated	
	30 June 2018	30 June 2017
	US\$	US\$
Net loss after income tax	(3,511,954)	(1,695,331)
Depreciation and amortisation	937,592	798,400
Non-Cash sales of CFOAM20	-	(235,089)
Share based payments	123,780	-
Foreign currency reserve	(40,040)	(49,004)
Changes in assets and liabilities:		
Increase in inventory	(533,598)	(571,918)
Increase in prepayments and other receivables	(62,145)	(48,147)
Increase in trade and other payables	508,975	166,978
Net cash flows used in operating activities	(2,577,390)	(1,634,112)

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(c) Reconciliation of cash and non-cash movements in liabilities arising from financing activities

			Non-cash changes			
	2017	Cash flows	Acquisition	Foreign exchange movement	Fair value changes	2018
Current Loans payable	-	1,927,430	-	-	-	1,927,430
Current promissory note	2,060,000	(1,451,592)	-	-	-	608,408
Non-current promissory notes	2,493,401	(108,645)	-	-	-	2,384,756
Total liabilities from financing liabilities	4,553,401	367,193	-	-	-	4,920,594

Note: The promissory notes have had capital repayments – refer note 11 and 15.

NOTE 18. ACCUMULATED LOSSES

	Consolidated	
	30 June 2018	30 June 2017
	US\$	US\$
Balance at beginning of period	1,926,412	231,081
Loss after income tax expense for the period	3,511,954	1,695,331
Balance at the end of the period	<u>5,438,366</u>	<u>1,926,412</u>

NOTE 19: FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks and accounts receivable and payable and promissory notes. The Group's activities expose it to a variety of financial risks; market risk (including fair value and interest rate risk), credit risk, liquidity risk, foreign exchange fluctuations, cash flow and interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by the board of directors under policies approved by the Board. The board identifies and evaluates financial risks for overall risk management.

Interest Rate Risk

As the Group has no significant interest-bearing assets other than cash at bank, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The risk arises due to changes in interest rates offered by the bank. The risk is managed by seeking alternative quotes from competing banks.

The promissory notes have a fixed interest rate and there is an inherent fair value risk.

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2018	Floating interest rate	Fixed interest rate	Non-interest bearing	Total	Weighted average effective interest rate
Financial Instruments	US\$	US\$	US\$	US\$	%
<i>Financial assets</i>					
Cash assets	1,879,092	-	-	1,879,092	-
Trade and other receivables	-	-	182,146	182,146	-
Total financial assets	1,879,092	-	182,146	2,061,238	
<i>Financial liabilities</i>					
Loans - current	-	1,927,430	-	1,927,430	4.99 - 10%
Promissory notes-current	-	608,408	-	608,408	2 - 3%
Promissory notes-non-current	-	2,384,756	-	2,384,756	2 - 3%
Total financial liabilities	-	4,920,594	-	4,920,594	
2017	Floating interest rate	Fixed interest rate	Non-interest bearing	Total	Weighted average effective interest rate
Financial Instruments	US\$	US\$	US\$	US\$	%
<i>Financial assets</i>					
Cash assets	2,181,239	-	-	2,181,239	-
Trade and other receivables	79,003	-	-	79,003	-
Total financial assets	2,260,242	-	-	2,260,242	
<i>Financial liabilities</i>					
Promissory notes-current	-	2,060,000	-	2,060,000	2 - 3%
Promissory notes-non-current	-	2,493,401	-	2,493,401	2 - 3%
Total financial liabilities	-	4,553,401	-	4,553,401	

The net fair value of financial assets and liabilities are materially in line with their carrying values. The assets pledged as security support the fair value.

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Sensitivity Analysis – Interest Rate Risk

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk at the reporting date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result in a change in interest rates.

	Carrying Amount US\$	Increase 1% Profit US\$	Equity US\$	Decrease 1% Profit US\$	Equity US\$
30 June 2018					
Cash and cash equivalents	1,879,092	18,791	-	(18,791)	-

	Carrying Amount US\$	Increase 1% Profit US\$	Equity US\$	Decrease 1% Profit US\$	Equity US\$
30 June 2017					
Cash and cash equivalents	2,181,239	21,812	-	(21,812)	-

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due. The Group has issued promissory notes as part of the Asset Purchase Agreement and obtained new loans to fund its expansion and its risk with regard to liquidity relates to its ability to maintain its current operations prior to the generation of future income streams and growth strategies to ensure it meets its commitments. The Group's ability to raise equity funding in the market is paramount in this regard. The Group manages liquidity by monitoring its budgeted commitments for at least 12 months and raising capital and/or debt as required to fund its business platform.

As at 30 June 2018	Less than 6 months US\$	6-12 months US\$	1-5 years US\$	Over 5 years US\$	Total contractual US\$	Carrying amount US\$
Trade and other payables	886,980	-	-	-	886,980	886,980
Borrowings	2,006,634	529,204	2,384,756	-	5,350,000	4,920,594
As at 30 June 2017	Less than 6 months US\$	6-12 months US\$	1-5 years US\$	Over 5 years US\$	Total contractual US\$	Carrying amount US\$
Trade and other payables	378,004	-	-	-	378,004	378,004
Promissory notes	1,080,000	980,000	2,493,401	-	4,812,915	4,553,401

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Credit Risk

The Group has no significant concentrations of credit risk. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings.

Cash at bank	2018 US\$	2017 US\$
Westpac Banking Corporation - AA	1,542,543	1,984,246
Summit Community Bank (not rated)	336,549	-
Washington Financial Bank (not rated)	-	196,993
	<u>1,879,092</u>	<u>2,181,239</u>

Price Risk

The Group is not exposed to commodity price risk.

Foreign Currency Risk

The group's operations are in US\$. The group has exposure foreign currency risk at the end of the financial period as follows:

	2018 US\$	2017 US\$
Cash and cash equivalents	<u>6,100</u>	<u>1,750,000</u>

Foreign currency exposure above relates to US dollars held by the Australian parent entity which has an AUD functional currency. Foreign currency risk can only arise on financial instruments that are denominated in a currency other than the functional currency in which they are measured. Translation related risks are therefore not included in the assessment of the entity's exposure to currency risks.

Translation exposures arise from financial and non-financial items held by an entity (for example a subsidiary) with a functional currency different from the group's presentation currency. However, foreign currency denominated inter-company receivables and payables which do not form part of a net investment in a foreign operation would be included in the sensitivity analysis for foreign currency risks, because even though the balances eliminate in the consolidated Statement of Financial Position, the effect on profit or loss of their revaluation under AASB 121 is not fully eliminated.

For the purposes of AASB 7, currency risk does not arise from financial instruments that are non-monetary items. The foreign currency exposure arising from investing in non-monetary financial instruments is reflected in the other price risk disclosures as part of fair value gains and losses.

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Fair Value Measurement

(a) Net fair value

The carrying value and net fair values of financial assets and liabilities at balance date are:

Consolidated	2018	
	Carrying Amount US\$	Net fair Value US\$
Financial assets		
Cash and cash equivalents	1,879,092	1,879,092
Trade and other receivables - current	182,146	182,146
	<u>2,061,238</u>	<u>2,061,238</u>
Financial Liabilities		
Trade and other payables - current	886,980	886,980
Borrowings - current	2,535,838	2,535,838
Borrowings – non-current	2,384,756	2,384,756
	<u>5,807,574</u>	<u>5,807,574</u>

Consolidated	2017	
	Carrying Amount US\$	Net fair Value US\$
Financial assets		
Cash and cash equivalents	2,181,239	2,181,239
Other receivables - current	125,422	125,422
	<u>2,306,661</u>	<u>2,306,661</u>
Financial Liabilities		
Trade and other payables - current	378,004	378,004
Borrowings promissory note - current	2,060,000	2,060,000
Borrowings promissory note – non-current	2,493,401	2,493,401
	<u>4,931,405</u>	<u>4,931,405</u>

(b) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- i) Quoted prices in active markets for identical assets or liabilities (level 1)
- ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (level 2); and
- iii) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The carrying amount of the financial assets and liabilities at balance date is considered to approximate their fair value.

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NOTE 20: INCOME TAX EXPENSE		2018	2017
		US\$	US\$
a.	The components of tax expense comprise:		
	Current tax	-	167
	Deferred tax	-	-
		<u>-</u>	<u>167</u>
b.	The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to income tax as follows:		
	Prima facie tax benefit on loss from ordinary activities before income tax at 30%	1,053,586	508,549
	Add tax effect of:		
	- Revenue losses not recognised	-	-
	- Other non-allowable items	(37,134)	-
		<u>1,016,452</u>	<u>508,549</u>
	Less tax effect of:		
	- Other deferred tax balances not recognised	(1,016,452)	(508,382)
	Income tax	<u>-</u>	<u>167</u>
c.	Unrecognised deferred tax assets:		
	Carry forward revenue losses	1,524,834	508,382
	Carry forward capital losses	-	-
	Net deferred tax	<u>1,524,834</u>	<u>508,382</u>

The tax benefits of the above deferred tax assets will only be obtained if:

- (a) the company derives future assessable income of a nature and amount sufficient to enable the benefits to be utilised;
- (b) the company continues to comply with the conditions for deductibility imposed by law; and
- (c) no changes in income tax legislation which adversely affect utilising benefits.

NOTE 21: REMUNERATION OF AUDITORS

Assurance Services	2018	2017
<i>Audit Services</i>	US\$	US\$
Amounts paid/payable to BDO Audit (WA) Pty Ltd for audit and review of the financial reports	<u>39,660</u>	<u>28,998</u>
<i>Non-Audit Services</i>		
Amounts paid/payable to BDO for tax compliance and advice	<u>4,009</u>	<u>-</u>

CFOAM LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 22: Parent Entity Note

Financial Position	2018 US\$	2017 US\$
Current assets		
Cash and cash equivalents	1,542,543	1,984,246
Other receivables	2,192	2,278
Total current assets	1,544,735	1,986,524
Non-current assets		
Investment in subsidiary	30,000	30,000
Loan to subsidiary	-	-
Total non-current assets	30,000	30,000
Total assets	1,574,735	2,016,524
Current liabilities		
Trade and other payables	78,603	97,879
Total liabilities	78,603	97,879
Net Assets	1,496,132	1,918,645
Equity		
Share capital	13,078,310	8,453,426
Reserves	13,960	(49,004)
Accumulated losses	(11,596,138)	(6,485,777)
Total Equity	1,496,132	1,918,645
Financial Performance	2018	2017
	\$	\$
Revenue from operations	6,484	2,459
Provision for intercompany loan	(4,664,999)	(6,087,938)
Expenses from operations	(451,846)	(330,956)
Loss before income tax	(5,110,361)	(6,416,435)
Income tax expense	-	(167)
Loss for the year	(5,110,361)	(6,416,602)

NOTE 23: CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 30 June 2018 (2017: nil).

NOTE 24: EVENTS SUBSEQUENT TO REPORTING DATE

In July 2018, CFOAM, LLC successfully commissioned and started up its new high-capacity kiln. The overall Phase 1 expansion program also included other capital investment items, including some new panel cutting and finishing equipment. Other than this work, there have been no other matters or circumstances, which have arisen since 30 June 2018 that have significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2018, of the Group, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2018, of the Group.

NOTE 25: COMPANY DETAILS

The registered office of the company is:

Level 1

33 Ord Street

West Perth Western Australia 6005

The principal place of business of the company is:

The Millennium Centre

1142 Middle Creek Road

Triadelphia, West Virginia 26059-1138

United States of America

NOTE 26: LOSS PER SHARE

Reconciliation of loss from continuing operations:	2018	2017
	US\$	US\$
Loss from continuing operations	(3,511,954)	(1,695,331)
Loss used to calculate basic EPS from continuing operations	(3,511,954)	(1,695,331)
Weighted average number of ordinary shares outstanding during the year	103,858,806	76,320,274

There are currently no dilutive securities on issue and therefore the weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS are the same.

CFOAM LIMITED
DIRECTORS' DECLARATION

In accordance with a resolution of the directors of CFOAM Limited, the directors of the Company declare that:

1. the financial statements and notes, as set out on pages 12 to 42, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and
 - b. give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the consolidated group; and
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. the directors have been given the declarations required by s295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

This declaration is made in accordance with a resolution of the Directors on 31 August 2018 and is signed on behalf of the Directors by:



Gary Steinepreis
Director
West Perth
31 August 2018

INDEPENDENT AUDITOR'S REPORT

To the members of CFOAM Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of CFOAM Limited (the Company) and its subsidiary (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1(b) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Accounting for inventory

Key audit matter	How the matter was addressed in our audit
<p>Inventories, as disclosed in Note 6 of the financial report, are a material asset of the Group.</p> <p>In accordance with Accounting Standard AASB 102 <i>Inventories</i>, inventories shall be measured at the lower of cost and net realisable value.</p> <p>This area has been determined to be a key audit matter due to the judgement and complexity involved in the allocation of costs throughout the manufacturing process.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Discussing with management the process by which costs are allocated to work in progress and finished goods; • Selecting a sample of costs included in inventory and agreeing to supporting documentation to ensure inventory is initially recorded at acquisition cost; • Assessing management's estimation of costs to complete work in progress and anticipated sales value of inventory based on sales contracts; • Assessing the net realisable value of inventories, by selecting items on a sample basis and comparing to the estimated selling price (less estimated costs of completion and any estimated selling costs); • Making enquiries of management regarding obsolete and slow moving inventory items, including inspecting the condition of inventory on hand to confirm saleability; and • Assessing the adequacy of the related disclosures in Notes 1(h) and 6 to the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 10 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of CFOAM Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.



Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

A handwritten signature in purple ink, appearing to read 'Dean Just', is written over a faint, stylized 'BDO' logo.

Dean Just

Director

Perth, 31 August 2018