

CFOAM Limited
Appendix 4D
Half-year report

1. Company details

Name of entity: CFOAM Limited
ABN: 46 611 576 777
Reporting period: For the half-year ended 31 December 2016

2. Results for announcement to the market

	US\$
Revenues from ordinary activities	529,616
Loss from ordinary activities after tax attributable to the owners of CFOAM Limited	(719,879)
Loss for the half-year attributable to the owners of CFOAM Limited	(765,199)

Note: This is the first half yearly report so no percentage gains/losses are provided.

Dividends

There were no dividends declared or paid in the period.

Comments

This is the first half-yearly report for CFOAM Limited. CFOAM was listed on the ASX on 26 October 2016 following a successful capital raising of US\$6,873,300 (A\$9,000,000) and acquisition of certain assets from Touchstone Research Laboratory, Ltd which are the basis for the CFOAM business. The sales revenue, which is net of sales tax, represents sales from 20 October 2016 (being the date of settlement of the acquisition) to 31 December 2016. The plans to debottleneck production, improve capacity and reduce operations costs are well underway and the capital improvement projects including major maintenance work on some of the equipment were completed before 31 January 2017. The results include significant one-off transaction and prospectus and ASX costs of US\$195,937, establishment of business costs in the USA of US\$123,546 and capital repairs and maintenance of US\$160,445.

3. Net tangible assets

	Reporting period Cents
Net tangible assets per ordinary security	<u>2.5</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 qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

7. Attachments

Details of attachments (if any):

The Interim Report of CFOAM Limited for the half-year ended 31 December 2016 is attached.

8. Signed



Gary Steinepreis
Director
Perth

Date: 28 February 2017



FOAM Ltd

CFOAM Limited

ABN 46 611 576 777

Interim Report - 31 December 2016

**CFOAM Limited
Directors' report
31 December 2016**

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of CFOAM Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

The following persons were directors of CFOAM Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Gary Steinepreis
Michael Placha
Toby Chandler

Principal activities

The principal activity of the Group is the holding company for the investment for the commercialisation of the CFOAM assets. This transaction was completed in the period with CFOAM being listed on the ASX on 26 October 2016.

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**).

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

CFOAM was developed to meet the growing demand for ultra-high end performance engineering materials in the, industrial, aerospace, military and commercial product markets. Touchstone Research has over the last 20 years invested, in its own right and via funding grants, approximately US\$60m in developing CFOAM products and end use applications.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to US\$719,879.

This is the first half-yearly report for CFOAM Limited. CFOAM was listed on the ASX on 26 October 2016 following a successful capital raising of US\$6,873,300(A\$9,000,000) and acquisition of certain assets from Touchstone Research Laboratory, Ltd which are the basis for the CFOAM business. The sales revenue, which is net of sales tax, represents sales from 20 October 2016 (being the date of settlement of the acquisition) to 31 December 2016. The plans to debottleneck production, improve capacity and reduce operations costs are well underway and the capital improvement projects including major maintenance work on some of the equipment were completed before 31 January 2017. The results include significant one-off transaction and prospectus and ASX costs of US\$195,937, establishment of business costs in the USA of US\$123,546 and capital repairs and maintenance of US\$160,445.

Significant changes in the state of affairs

CFOAM was listed on the ASX on 26 October 2016 following a successful capital raising of A\$9,000,000 and acquisition of certain assets from Touchstone Research Laboratory, Ltd which are the basis for the CFOAM business.

There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Gary Steinepreis
Director, Perth, 28 February 2017

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

As lead auditor for the review of CFOAM Limited for the half-year ended 31 December 2016, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in blue ink, appearing to read 'Dean Just', is written over a light blue circular stamp.

Dean Just
Director

BDO Audit (WA) Pty Ltd
Perth, 28 February 2017

CFOAM Limited
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31 December 2016

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General information

The financial statements cover CFOAM Limited as a consolidated entity consisting of CFOAM Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in United States dollars, which is CFOAM Limited's presentation currency.

CFOAM Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

Level 1
33 Ord Street
West Perth WA 6005

Principal place of business

1142 Middle Creek Road
Triadelphia WV 26059
USA

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2017.

CFOAM Limited
Consolidated Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2016

		Consolidated	
		31 Dec 2016	30 Jun 2016
		US\$	US\$
	Note		
Revenue from operations		529,616	-
Other income		1,654	640
Expenses			
Raw materials and consumables used		(315,770)	-
Legal fees		(139,054)	(131,852)
Accounting and audit fees		(35,145)	(15,867)
Raw material services report		-	(5,034)
Australian stock exchange fees		(61,628)	(3,722)
Travel and associated costs		(42,360)	(59,156)
Other expenses		(60,806)	(16,090)
Professional services		(71,585)	-
Employee salaries, consulting and benefits expense		(243,494)	-
Share based payments expense	10	(59,342)	-
Depreciation and amortisation expense		(199,600)	-
Finance costs		(22,365)	-
Loss before income tax expense from operations		(719,879)	(231,081)
Income tax expense		-	-
Loss after income tax expense for the half-year		(719,879)	(231,081)
Other comprehensive income (loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(45,321)	-
Other comprehensive income (loss) for the half-year, net of tax		(45,321)	-
Total comprehensive income (loss) for the half-year		(45,321)	-
Loss for the half-year is attributable to the owners of CFOAM Limited		(765,199)	(231,081)
		Cents	Cents
Loss per share for loss attributable to the owners of CFOAM Limited			
Basic loss per share		(\$0.01)	(\$0.05)
Diluted loss per share		(\$0.01)	(\$0.05)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

CFOAM Limited
Consolidated Statement of financial position
As at 31 December 2016

		Consolidated	
	Note	31 Dec 2016	30 Jun 2016
		US\$	US\$
Assets			
Current assets			
Cash and cash equivalents		3,424,095	365,840
Trade and other receivables		93,391	277,275
Other current assets		475,309	-
Inventories		513,442	-
Total current assets		4,506,237	643,115
Non-current assets			
Property, plant and equipment	4	2,866,306	-
Intangibles-development asset	5	5,174,757	-
Other non-current assets		196,356	-
Total non-current assets		8,237,419	-
Total assets		12,743,656	643,115
Liabilities			
Current liabilities			
Trade and other payables		438,678	211,026
Borrowings-promissory note	6	1,160,000	-
Total current liabilities		1,598,678	211,026
Non-current liabilities			
Borrowings-promissory note	7	3,628,490	-
Total non-current liabilities		3,628,490	-
Total liabilities		5,227,168	211,026
Net assets		7,516,488	432,089
Equity			
Issued capital	8	8,453,426	663,170
Reserves	9	14,021	-
Accumulated losses		(950,959)	(231,081)
Total equity		7,516,488	432,089

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

CFOAM Limited
Consolidated Statement of changes in equity
For the half-year ended 31 December 2016

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 half-year	-	-	(719,879)	(719,879)
Other comprehensive income for the half-year, net of tax	-	(45,321)	-	(45,321)
Total comprehensive income for the half-year		(45,321)	(719,879)	(765,199)
<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)
Share-based payments	-	59,342	-	59,342
Balance at 31 December 2016	<u>8,453,426</u>	<u>14,021</u>	<u>(950,959)</u>	<u>7,516,488</u>

Consolidated	Issued capital US\$	Reserves US\$	Accumulated losses US\$	Total equity US\$
Balance at incorporation	1	-	-	1
Loss after income tax expense for the period	-	-	(231,081)	(231,081)
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive loss for the period	-	-	(231,081)	(231,081)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity	663,169	-	-	663,169
Share-based payments	-	-	-	-
Balance at 30 June 2016	<u>663,170</u>	<u>-</u>	<u>(231,081)</u>	<u>432,089</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

CFOAM Limited
Consolidated Statement of cash flows
For the half-year ended 31 December 2016

	Consolidated	
	31 Dec 2016	30 Jun 2016
	US\$	US\$
Cash flows from operating activities		
Receipts from customers (inclusive of sales and other taxes)	511,022	-
Payments to suppliers and employees (inclusive of sales and other taxes)	(1,424,234)	(97,862)
Interest received	1,654	640
Interest and other finance costs paid	(22,365)	-
	<hr/>	<hr/>
Net cash used in operating activities	(933,923)	(97,222)
Cash flows from investing activities		
Payment for purchase of assets of Touchstone Research Laboratory, Ltd	(2,000,000)	-
Payment of escrow deposit – Asset Purchase Agreement	-	(200,000)
Payments for property, plant and equipment	(588,341)	-
	<hr/>	<hr/>
Net cash used in investing activities	(2,588,341)	(200,000)
Cash flows from financing activities		
Proceeds from the issue of shares	6,873,300	663,170
Costs of the offer	(292,781)	-
Repayment of loans	-	(56,202)
Proceeds from loans	-	56,202
	<hr/>	<hr/>
Net cash provided by financing activities	6,580,519	663,170
Net increase in cash and cash equivalents	3,058,255	365,948
Cash and cash equivalents at the beginning of the financial half-year	365,840	-
Effects of exchange rate changes on cash and cash equivalents	-	(108)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the financial half-year	3,424,095	365,840

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity 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.

Significant accounting judgements and estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Asset acquisition

As discussed in note 13, 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.

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 (note 13). 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.

Accounting policies:

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 weighted average costs.

Development Asset

Development asset is recognised at cost of acquisition. It has a finite life and are carried at cost less any accumulated amortisation and any impairment losses. The development asset is amortised over a useful life of 15 years.

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.

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.

Share Based Payments

The Group operates an equity-settled share-based payment employee share and option scheme. The fair value of the equity to which employees became entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account.

The fair value of options is ascertained at the market bid price using a Black-Scholes pricing model incorporating all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted was based on the number of equity instruments that eventually vested.

Property, plant and equipment

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:

Plant and equipment	3-7 years
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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.

Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Asset acquisition

On 20 October 2016, 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 and no deferred tax will arise. No goodwill will arise on the acquisition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Director's judgment was required in classifying the transaction as an asset acquisition rather than a business combination.

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

Impact of standards issued but not yet applied by the entity

There were no new standards issued since 30 June 2016 applied by the Group. The 30 June 2016 annual report disclosed that the Group anticipated no material impacts (amounts recognised and/or disclosed) arising from initial application of those standards issued but not yet applied at that date.

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.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB 139: *Recognition and Measurement of Financial Instruments*. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the statement of comprehensive income in the period in which they arise.

Impairment

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

Note 2. Change in Presentation Currency

The consolidated entity has previously reported its consolidated results in Australian dollars. As the main operations of the consolidated entity are based in the United States, with the functional currency of the subsidiaries being United States Dollars ('USD' or 'US\$'), the consolidated entity has changed its presentation currency for financial reporting from Australian dollars ('AUD' or 'A\$') to USD from 1 July 2016 in order to better align the presentation of the consolidated entity's financial position and financial performance of its operations.

Australian Dollar (A\$) to United States Dollar (US\$)

	31 December 2016	30 June 2016
Average exchange rates used	Period average exchange rates used 0.7535	Period average exchange rates used 0.74409
Period end closing exchange rates used	0.72015	0.7444

The basis for changing the presentation of the results and financial position from Australian Dollars into United States Dollars were as follows:

- i. The Australian denominated CFOAM consolidated statement of financial position for the year ending 30 June 2016 was translated at the closing exchange rate of 0.7444;
- ii. Income and expenses for consolidated statement of profit or loss and other comprehensive income (including comparatives) were translated at historical period average exchange rates;
- iii. Movements in equity and reserves for the comprehensive income and for the consolidated statement of financial position were translated at actual historical daily exchange rates;
- iv. The consolidated cash flow statement was translated at historical period average exchange rates;
- v. Exchange differences on translating income, expenses; movements in equity and reserves at daily exchange rates; and assets and liabilities at closing exchange rates are taken to the foreign currency translation reserve in the equity section and under other comprehensive income/(expense) in the consolidated statement of profit or loss and other comprehensive income; and
- vi. Comparatives for 30 June 2016 have been re-translated.

Note 3. 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.

Note 4. Non-current assets - property, plant and equipment

	Consolidated	
	31 Dec 2016	30 Jun 2016
	US\$	US\$
Plant and equipment - at cost	2,903,306	-
Less: Accumulated depreciation	<u>(37,000)</u>	<u>-</u>
	<u>2,866,306</u>	<u>-</u>

Reconciliations

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

Consolidated	Plant and equipment US\$
Balance at 1 July 2016	-
Additions through asset acquisition (note 13)	2,301,202
Additions	602,104
Disposals	-
Depreciation expense	<u>(37,000)</u>
Balance at 31 December 2016	<u><u>2,866,306</u></u>

Note 5. Non-current assets – intangibles

	Consolidated	
	31 Dec 2016	30 Jun 2016
	US\$	US\$
Development asset - at cost (refer note 13)	5,232,900	-
Less: Accumulated amortisation	(58,143)	-
	<u>5,174,757</u>	<u>-</u>

Reconciliations

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

Consolidated	Development Asset US\$
Balance at 1 July 2016	-
Additions through asset acquisition (note 13)	5,232,900
Amortisation expense	(58,143)
Balance at 31 December 2016	<u>5,174,757</u>

Note 6. Current liabilities - borrowings

	Consolidated	
	31 Dec 2016	30 Jun 2016
	US\$	US\$
Promissory notes – secured	1,160,000	-
	<u>1,160,000</u>	<u>-</u>

Refer to note 7 for further information on assets pledged as security and financing arrangements.

Note 7. Non-current liabilities - borrowings

	Consolidated	
	31 Dec 2016	30 Jun 2016
	US\$	US\$
Promissory notes – secured	3,628,490	-
	<u>3,628,490</u>	<u>-</u>

Assets pledged as security:

On completion of the Asset Purchase Agreement (**APA**) (refer note 13) promissory notes were issued as follows:

- (i) US\$800,000 promissory note with a term of 5 years and an interest rate of 3% per annum, and which is secured by a first lien security interest over the assets acquired under the APA. Payable monthly on a reducing principal basis.
- (ii) US\$4,000,000 promissory note which will accrue interest at 2% per annum and be secured by a second lien security interest over the assets acquired under the APA. This promissory note and any accrued interest is payable as follows:
 - (A) US\$2,000,000 plus accrued interest is payable within 30 days of post-Completion cumulative sales volume of CFOAM reaching US\$3,000,000; or
 - (B) if post-Completion cumulative sales volume of CFOAM has not reached US\$3,000,000 within one year of Completion, then US\$1,000,000 plus accrued interest is payable within 10 days of the date that is one year following Completion; and
 - (C) the remaining principal balance of the promissory note plus all unpaid accrued interest will be paid in full on the later of:
 - (I) 30 days of post-Completion cumulative sales volume of CFOAM reaching US\$6,000,000; and
 - (II) the second anniversary of the Completion.

CFOAM Limited
Notes to the financial statements
31 December 2016

Note 8. Issued Capital

	Consolidated			
	31 Dec 2016	30 Jun 2016	31 Dec 2016	30 Jun 2016
	Shares	Shares	A\$	A\$
Ordinary shares - fully paid	<u>93,500,000</u>	<u>37,512,500</u>	<u>11,091,554</u>	<u>890,879</u>
			31 Dec 2016	30 Jun 2016
			US\$	US\$
Ordinary shares - fully paid	<u>93,500,000</u>	<u>37,512,500</u>	<u>8,453,426</u>	<u>663,170</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				<u>(761,275)</u>
Balance	31 December 2016	<u>93,500,000</u>		<u>8,453,426</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 9. Reserves

	Consolidated	
	31 Dec 2016	30 June 2016
	US\$	US\$
Share based payment reserve – performance rights	37,159	-
Share based payment reserve – options	22,183	-
Foreign currency reserve	<u>(45,321)</u>	<u>-</u>
	<u>14,021</u>	<u>-</u>

Nature and Purpose of Reserves

(1) Share based payment reserve –performance rights

The share based payment reserve is used to recognise the fair value of performance rights 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 concerned convert to ordinary shares.

(2) Share based payment reserve - options

The option reserve is used to recognise funds received from options issued to shareholders, the value of options issued as consideration in the purchase of assets and the fair value of options issued to employees but not exercised. The reserve is recognised in contributed equity when the options are exercised and converted to ordinary share capital.

(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.

Note 10. Share based payments

As part of Daniel Placha's employment as COO commencing on the date of listing (grant date), he was issued the following options and performance rights as remuneration. The fair value of the options and performance rights were determined by an independent valuation using Black-Scholes option pricing model using in puts in the table below.

31 Dec 2016 Options	Expiry Date	Exercise Price	Number	Amount expensed US\$	Total fair value US\$	Share price at grant date US\$	Volatility
Unlisted options	30/6/2021	US\$0.23	1,000,000	15,270	92,680	\$0.15	80%
Unlisted options	30/6/2021	US\$0.38	750,000	6,913	59,338	\$0.15	80%
			1,750,000	22,183	152,018		
31 Dec 2016 Performance rights	Expiry Date	Milestone	Number	Amount expensed US\$	Total fair value US\$	Share price at grant date US\$	Volatility
Performance Rights	20/10/2019	A	750,000	22,295	113,025	\$0.15	90%
Performance Rights	20/10/2019	B	500,000	14,864	75,350	\$0.15	90%
			1,250,000	37,159	188,375		

A 750,000 Performance Rights will vest upon completion of the de-bottleneck of the production of CFOAM process after the capital investment as part of the commercialisation strategy; and

B 500,000 Performance Rights will vest upon the Company's post-Completion cumulative sales volume of CFOAM reaching US\$3,000,000, provided that in no circumstance will the Performance Rights vest prior to 1 year after the Issue Date.

1,000,000 options vest on the 31 December 2017 based on a service requirement. 750,000 options vest on the 30 June 2018 based on a service requirement.

The 1,800,000 ordinary shares issued to parties that acted as advisors or consultants to the Company in consideration for introducing the acquisition to the Company and assisting with its implementation are valued at US\$274,932 (A\$360,000) representing the fair value of services provided. The fair value of the shares issued has been recognised as capital raising costs which reduces share capital as the shares issued were provided for services in connection with the issue of equity instruments.

Note 11. Commitments

Lease commitments - operating

Committed at the reporting date but not recognised as liabilities, payable:

	Consolidated 31 Dec 2016 US\$	30 Jun 2016 US\$
Within one year	266,650	-
One to five years	422,197	-
More than five years	-	-
	688,847	-

Note 12. Related party transactions and Key Personnel Contracts

Michael Placha – Chief Executive Officer – Carbon Innovations, LLC

Effective date: 1 July 2017

Remuneration: US\$200,000 per annum

Bonus: Carbon Innovations may pay Mr Placha a performance-based bonus at any time during the term of his appointment

Terms and conditions: The employment contract also contains various other terms and conditions that are considered standard for an agreement of this nature.

Daniel Placha – Chief Operating Officer – Carbon Innovations, LLC

Effective date: 1 July 2017

Remuneration: US\$150,000 per annum

Performance Remuneration: Mr Placha was issued 1,250,000 Performance Rights and 1,750,000 Options (refer to Note 13)

Bonus: Carbon Innovations may pay Mr Placha a performance-based bonus at any time during the term of his appointment

Terms and conditions: The employment contract also contains various other terms and conditions that are considered standard for an agreement of this nature.

Non-Executive Director Agreements - Toby Chandler and Gary Steinepreis

Fees: Directors fees of US\$36,650 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.

Note 13. Asset Acquisition

Summary of acquisition

On 20 October 2016, pursuant to the Asset Purchase Agreement, Carbon Innovations, LLC (100% owned subsidiary of CFOAM) acquired certain assets from Touchstone Research Laboratory, Ltd which are the basis for the CFOAM business.

The transaction is considered to be an asset acquisition and is accounted for based on the net assets acquired.

The fair value of the assets acquired at the date of acquisition are outlined as follows:

Purchase consideration	US\$
Cash paid	2,200,000
Shares issued (9,187,500 ordinary shares- note 8)	1,403,299
- Promissory note – note 6	800,000
- Promissory note – note 7	4,000,000
Total purchase consideration	8,403,299
Fair value of assets and liabilities acquired	
- Plant and equipment	2,301,202
- Inventory	93,075
- Other non-current assets	205,751
- Other current assets	570,371
- Development asset	5,232,900
Net assets acquired	8,403,299

Note 14. Events after the reporting period

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

CFOAM Limited
Directors' declaration
31 December 2016

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Gary Steinepreis
Director

28 February 2017
Perth

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of CFOAM Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of CFOAM Limited, which comprises the consolidated statement of financial position as at 31 December 2016, 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 half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of CFOAM Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of CFOAM Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of CFOAM Limited is not in accordance with the Corporations Act 2001 including:

- (i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

BDO Audit (WA) Pty Ltd

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

Dean Just

Director

Perth, 28 February 2017