



26 February 2018

Carbonxt Group Limited – 1H18 Results Revenue More Than Doubled, Significant Increase in Gross Margin

HIGHLIGHTS

- Revenue of \$3.031 million, +126% on 1H17.
- Driven by higher sales volumes of activated carbon products in the USA.
- Gross margin 28%, up from 4% in 1H17, driven by both higher prices and lower cost.
- New production facility about to open - targeting 40% to 45% gross margin from FY19.
- On track to reach profitability in FY19 as per Prospectus forecast.
- Innovative products in development to target new market segments in the USA.
- Increasing legislative requirements for mercury capture in Europe and Asia provide longer term opportunity for global expansion.

FINANCIAL OVERVIEW

	1H18 \$'000	1H17 \$'000
Revenue	\$3,031	\$1,338
Gross margin	\$839	\$60
Gross margin %	28%	4%
Shipping costs	(\$565)	(\$101)
Operating costs	(\$2,332)	(\$1,530)
EBITDA	(\$2,058)	(\$1,571)
Depreciation and amortisation	(\$93)	(\$86)
EBIT	(\$2,151)	(\$1,657)
Net interest	(\$77)	(\$88)
Non-cash items *	(\$365)	(\$439)
IPO costs expensed	(\$374)	-
Net loss before tax	(\$2,967)	(\$2,184)

* Royalty fair value adjustment, and non-employee share-based payments and options expenses.

REVENUE

The Company's primary business is the development, production and sale of speciality activated carbons (AC) for pollution control in the USA.

Its primary market segment is currently the control of mercury emissions from coal fired power stations and other industrial facilities. All 1H18 revenue came from this segment, totalling \$3.031 million, representing a 126% increase on 1H17.

The growth in revenue came from both an increase in volume (1,772 tons, +102%) and price (US\$1,315 per ton, +14%) reflecting increased recognition of the advantages of Carbonxt's AC products.

LOWER PRODUCTION COST AND HIGHER MARGINS

Gross margin increased from 4% to 28% driven by higher prices and lower input costs.

In 2017, Carbonxt procured the development of a new production facility in the south east of the USA to manufacture its own AC using a locally sourced base raw material only accessible to Carbonxt. The new facility, called Black Birch, is currently under construction and is expected to be commissioned in 2H18.

The facility will produce large volumes of AC at much lower cost than the current external supply and gross margins are expected to further increase in latter part of FY18. The full benefit from the new facility will be realised in FY19 with an expected increase in gross margin to 40% - 45%.

OPERATING COSTS

Operating costs increased by 52% in 1H18 due primarily to more personnel in sales and marketing to drive higher sales volumes, and increased resources in R&D to develop new products. Cost increases from FY19 are expected to be modest as economies of scale take effect.

BALANCE SHEET

Carbonxt has a strong balance sheet with significant cash reserves after raising \$10m in its successful IPO. Since 31 December, most of the funds have been converted to US\$ to provide a natural hedge for the Company's business operations.

The Company has two liabilities in addition to normal trade creditors: US\$0.75m customer advance that is expected to be repaid out of cash flow during 2018, and A\$2.5m of convertible notes maturing on 1 January 2022 with an interest rate of 8%. The Company can elect to repay the notes any time from July 2018, with the noteholders having the right to convert to ordinary shares at 50 cents per share if the company makes the repayment election.

OPERATIONAL REVIEW

The Company is focused on three core segments; mercury emission controls, AC pellets and potable water.

Mercury Emission Controls

Demand for Carbonxt's products is driven by the US Environmental Protection Agency's (EPA) strict regulations on the amount of mercury emitted by coal fired power plants under the Mercury and Air Toxic Standards (MATS). The company develops products for both air phase and water phase mercury capture:

a. Air phase mercury control

Carbonxt's patented powdered activated carbon (PAC) is injected into flue gas to capture mercury before it is released into the atmosphere.

All of Carbonxt's major competitors add bromine to their PAC as an oxidising agent to bind with mercury and ensure the facilities meet EPA compliance. This process has adverse side effects as bromine can cause corrosion to plant and equipment resulting in significantly higher costs for equipment maintenance and replacement.

Carbonxt continues to win market share through its proprietary, patented PAC that uses a benign oxidising agent instead of bromine.

All 1H18 revenue was driven by MATS compliance. Similar legislation to MATS has been enacted by the EPA governing mercury emissions from other industrial facilities such as cement factories and fertiliser plants. Since 31 December, the Company achieved its first sales to non-power plant customers.

b. Water phase mercury control

Carbonxt has developed and patented a PAC product, called Wetject, that can be injected directly into Wet Flue Gas Desulphurisation Devices (WFGD or “wet scrubber”). This product is more efficient in mercury removal than air phase PAC, and it doesn’t compete against bromine-based PACs as bromine itself can generate toxins when discharged into waste water. Therefore, power stations avoid injecting brominated PAC into WFGDs.

Wetject also enables utilities to comply with the EPA’s Effluent Limitation Guidelines (ELG), which regulate the discharge of toxins, including mercury, into waste water. The US EPA has made some changes to the Effluent Limitation guidelines, but these do not affect the flue gas mercury control waste water stream. In addition, the utilities adoption of Wetject is aided by other benefits and potential cost savings versus air phase injection. Several utilities have booked product testing in 2H18 and there is high expectation of revenue generation from FY19.

Wetject is expected to have a higher sale price and higher margin than air phase PAC.

Activated Carbon Pellets

Most AC pellets sold in the USA are imported from Asia, and Carbonxt is one of only a handful of local producers.

Carbonxt launched in this segment with a pellet it developed specifically for the first ReACT (Regenerative Activate Coke Technology) power station built in the USA. Deliveries to the ReACT plant are expected to commence in 2H18, with full year impact from FY19.

Carbonxt has identified other applications for its pellets using the knowledge gained from the development of the ReACT pellet. AC pellets have a multitude of industrial uses ranging from waste water treatment through to the motor vehicle sector. Product development is underway, and the Company has reasonable expectations of revenue from further applications in FY19. Timing is fortuitous with many US customers looking for a local supplier due to increasing costs of imported pellets, product quality concerns and potentially higher trade barriers.

AC pellets are more specialised than base PAC and command higher sale prices.

Potable Water

This is potentially the largest market for Carbonxt over time, with over 400,000 metric tonnes of AC sold in the USA in 2015¹. Sale prices are lower as the market is quite commoditised, but the lower cost from the new production facility now makes this market very attractive. Products are currently being developed for market entry in FY19.

¹ World Activated Carbon; Freedonia Focus Reports, World Collection April 2016

OUTLOOK AND EXPANSION OPPORTUNITIES

Carbonxt's non-corrosive PAC, Wetject technology, locally manufactured pellets and low cost of production provide the Company with clear competitive advantages. In addition, the Company has arguably the strongest R&D capability in the market with a high calibre group of PhD level specialists capable of developing products to meet market opportunities as highlighted above.

There are a number of opportunities to use the Company's intellectual property in other US pollution control markets and to export the Company's technology and PAC products to Europe and Asia, due to increasing legislative requirements for mercury capture.

The Company's key priority in the near-term is focusing on its existing core market segments and building a solid and profitable business platform in the USA ahead of entering new markets. In line with Prospectus forecasts, the Company expects to achieve revenue growth and margin expansion in 2H18, and to be profitable from FY19.

For further information please contact:

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Managing Director

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Carbonxt Group Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Carbonxt Group Limited
ABN:	59 097 247 464
Reporting period:	For the half-year ended 31 December 2017
Previous period:	For the half-year ended 31 December 2016

2. Results for announcement to the market

				\$
Revenues from ordinary activities	Up	126%	to	3,031,095
Loss from ordinary activities after tax attributable to the owners of Carbonxt Group Limited	Up	36%	to	2,966,677
Loss for the half-year attributable to the owners of Carbonxt Group Limited	Up	36%	to	2,966,677

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the consolidated entity after providing for income tax amounted to \$2,966,677 (31 December 2016: \$2,184,023).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	9.84	(5.11)

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Details of associates and joint venture entities

. Not applicable.

8. Foreign entities

Not applicable

9. 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.

10. Attachments

Details of attachments (if any):

The Interim Report of Carbonxt Group Limited for the half-year ended 31 December 2017 is attached.

11. Signed



Signed

Date: 26 February 2018

Carbonxt Group Limited
ABN 59 097 247 464

Interim Financial Report
Half-Year Ended 31 December 2017

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DIRECTORS' REPORT

Your directors present their report on the Company and its controlled entities ("the Group") for the half-year ended 31 December 2017 ("1H18").

Directors

The names of the Company's directors in office during the half-year and until the date of this report are as follows. Directors were in office for this entire period.

Matthew Quinn	Non-Executive Chairman
Warren Murphy	Managing Director
David Mazyck	Director of Technology and CEO Carbonxt Inc.

Operating results

The loss for the Group for the half-year ended 31 December 2017 was \$2,966,677 (1H17 Loss \$2,184,023).

	1H18 \$'000	1H17 \$'000
Revenue	\$3,031	\$1,338
Gross margin	\$839	\$60
<i>Gross margin %</i>	<i>28%</i>	<i>4%</i>
Shipping and distribution costs	(\$565)	(\$101)
Operating costs	(\$2,332)	(\$1,530)
EBITDA	(\$2,058)	(\$1,571)
Depreciation and amortisation	(\$93)	(\$86)
EBIT	(\$2,151)	(\$1,657)
Net interest	(\$77)	(\$88)
Non-cash items*	(\$365)	(\$439)
IPO costs expensed	(\$374)	-
Net loss before tax	(\$2,967)	(\$2,184)

* Royalty fair value adjustment, and non-employee share-based payments expense and options expense.

Review of operations

The company's primary business is the production and sale of activated carbon (AC) products for pollution control in the USA.

The Company's main current focus is the removal of mercury emissions from coal fired power stations and other industrial facilities. Demand is driven by strict regulations imposed by the US Environmental Protection Authority, which require these facilities to inject powdered activated carbon (PAC) into flue gas to capture mercury before it is released into the atmosphere.

All 1H18 revenue came from the mercury emissions control market. The increase in revenue came from both volume (1,772 tons, +102%) and price (US\$1,315 per ton, +14%) reflecting increased recognition of the advantages of Carbonxt's proprietary PAC products.

Carbonxt also produces and sells AC pellets and launched in this market with a pellet product it developed specifically for the first ReACT power station to be built in the USA. This power station imported a one-off batch of pellets for its commissioning in 2017 and Carbonxt expects to become the principal post commissioning supplier from 2H18 under a long-term contract. First revenue is expected to be generated in 2H18, with full year impact from FY19.

In October 2017, Carbonxt procured the development of a new production facility in the south east of the USA to manufacture its own PAC using a locally sourced base raw material. The new facility, to be called Black Birch, is nearing completion and costs are in-line with expectations. Black Birch is expected to be commissioned in 2H18.

DIRECTORS' REPORT (continued)**Listing on the ASX**

Following receipt of the letter of admission from the ASX on 21 December 2017 and subsequent to the end of the reporting period, the shares of the Company were listed on the ASX on 23 January 2018. In conjunction with this listing, the Company raised \$10M at the initial public offering of 14,285,715 ordinary shares at \$0.70 each. In addition, 3,217,857 ordinary shares were issued on conversion of 1,802,000 convertible notes maturing on 31 July 2018 at the pre-IPO issue price of \$0.56 raising a further \$1.8M. All shares were issued prior to 31 December 2017. Shares and options issued to related parties and certain third parties are subject to escrow. See Note 13(b) and Note 16 for further information.

Principal activities

The principal activities of the Group during the half-year were the development of and sale of activated carbon products to capture mercury and other emissions from coal fired power stations and industrial plants.

Significant changes in state of affairs

No significant change in the nature of these activities occurred during the half-year.

After balance date events

Following receipt of the letter of admission from the ASX on 21 December 2017 and subsequent to the end of the reporting period, the shares of the Company were listed on the ASX on 23 January 2018. Following the listing, the convertible notes' maturity date was extended to 1 January 2022.

No other matters or circumstances have arisen since the end of the half-year which significantly affected or could significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Future development, prospects and business strategies

There are a number of opportunities to use the company's intellectual property in other US pollution control markets.

There are also potential opportunities to sell the company's PAC products in Europe and Asia due to increasing legislative requirements for mercury capture, and to export its pellet technology to these markets.

Carbonxt will continue to do background research on these opportunities but will remain focused on the market segments outlined in the review of operations until it has built a solid business platform in the USA and is profitable.

Environmental issues

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory of Australia. The Group's US operations are in compliance with all State and Federal environmental regulations and there have been no known breaches of any environmental regulation of the United States.

Dividends

The Company has not declared dividends during the half-year (1H17: nil).

Indemnifying directors and officers

The Group indemnifies the Directors of the Company for any liabilities to another person (other than the Company or related entity) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. Premiums of \$75,065 were paid for directors and officers liability insurance during or since the end of the half-year (1H17: \$34,169).

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the end of the half-year.

DIRECTORS' REPORT (continued)

Proceedings on behalf of company

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the half-year.

Non-audit services

There were no non-audit services provided by the Company's auditor, Ernst & Young.

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 page 6 and forms part of this directors' report.

Signed in accordance with a resolution of the Board of Directors.



Warren Murphy
Director

26 February 2018

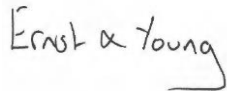
Auditor's Independence Declaration

Auditor's Independence Declaration to the Directors of Carbonxt Group Limited

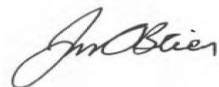
As lead auditor for the review of Carbonxt Group Limited for the half-year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Carbonxt Group Limited and the entities it controlled during the financial period.



Ernst & Young



Julian M. O'Brien
Partner
26 February 2018

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

	Notes	Consolidated HY Dec 2017 \$	HY Dec 2016 \$
Trading revenue - sale of goods			
Sales revenue	4	3,031,095	1,337,630
Cost of sales		(2,192,568)	(1,277,963)
Gross margin		838,527	59,667
Shipping and distribution costs		(564,632)	(101,085)
Selling and marketing expenses		(403,904)	(183,888)
General and administrative expenses		(506,057)	(301,956)
Employee benefits expense	5	(1,189,032)	(741,286)
Depreciation and amortisation expenses		(92,934)	(86,160)
Other expenses	5	(971,738)	(741,537)
Loss for the half-year before finance costs and income tax		(2,889,770)	(2,096,245)
Interest income	4	1,931	2,258
Finance costs	5	(78,838)	(90,035)
Loss for the half-year before income tax		(2,966,677)	(2,184,023)
Income tax expense		-	-
Loss for the half-year after income tax		(2,966,677)	(2,184,023)
Other comprehensive income			
Foreign currency translation		(35,548)	(150,702)
Other comprehensive income for the period, net of tax		(35,548)	(150,702)
Total comprehensive loss for the period		(3,002,225)	(2,334,725)
Loss for the period is attributable to:			
Shareholders of Carbonxt Group Limited		(2,966,677)	(2,184,023)
Total comprehensive loss for the period is attributable to:			
Shareholders of Carbonxt Group Limited		(3,002,225)	(2,334,725)
Earnings per share (cents per share)	12		
Basic loss per share for the year attributable to ordinary equity holders of the parent		(5.29)	(4.80)
Diluted loss per share for the year attributable to ordinary equity holders of the parent		(5.29)	(4.80)

The statement of comprehensive income should be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	Notes	Consolidated Dec 2017 \$	Jun 2017 \$
Assets			
Current Assets			
Cash and cash equivalents	6	9,365,531	520,522
Trade and other receivables		690,199	477,941
Inventories		385,618	227,038
Other current assets	7	642,777	62,417
Total Current Assets		11,084,125	1,287,918
Non-Current Assets			
Plant and equipment	8	1,786,217	1,567,493
Intangible assets	9	1,508,745	1,509,908
Total Non-Current Assets		3,294,962	3,077,401
Total Assets		14,379,087	4,365,319
Liabilities			
Current Liabilities			
Trade payables and customer deposits		2,691,208	2,181,149
Loans and borrowings	10	73,333	2,474,867
Total Current Liabilities		2,764,541	4,656,016
Non-Current Liabilities			
Loans and borrowings	10	2,117,315	-
Other liabilities	11	2,252,889	2,109,761
Total Non-Current Liabilities		4,370,204	2,109,761
Total Liabilities		7,134,745	6,765,777
Net Assets		7,244,342	(2,400,458)
Equity			
Equity attributable to members of the parent entity:			
Contributed Equity	13	57,614,094	45,216,728
Reserves	14	12,561,097	12,346,986
Accumulated Losses		(62,930,849)	(59,964,172)
Total Equity		7,244,342	(2,400,458)

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

**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

	Notes	Contributed Equity \$	Reserves \$	Accumulated Losses \$	Total Equity \$
Consolidated					
Balance at 1 July 2016		41,505,387	12,479,634	(55,698,082)	(1,713,061)
Comprehensive income					
Loss for the half-year		-	-	(2,184,023)	(2,184,023)
Foreign Currency translation		-	(150,702)	-	(150,702)
Total comprehensive income for the half-year		-	(150,702)	(2,184,023)	(2,334,725)
Transactions with owners in their capacity as owners:					
Issued shares		1,516,433	-	-	1,516,433
Share issue costs		(83,652)	-	-	(83,652)
Total transactions with owners in their capacity as owners		1,432,781	-	-	1,432,781
Balance at 31 December 2016		42,938,168	12,328,932	(57,882,105)	(2,615,005)
Balance at 1 July 2017 (restated)*		45,216,728	12,346,986	(59,964,172)	(2,400,458)
Comprehensive income					
Loss for the half-year		-	-	(2,966,677)	(2,966,677)
Foreign Currency translation		-	(35,548)	-	(35,548)
Total comprehensive income for the half-year		-	(35,548)	(2,966,677)	(3,002,225)
Transactions with owners in their capacity as owners:					
Issued shares	13	13,684,038	-	-	13,684,038
Share issue costs	13	(1,286,672)	-	-	(1,286,672)
Issue of options	14	-	249,659	-	249,659
Total transactions with owners in their capacity as owners		12,397,366	249,659	-	12,647,025
Balance at 31 December 2017		57,614,094	12,561,097	(62,930,849)	7,244,342

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

*Restated 1 July 2017, refer to note 14.

**STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

	Notes	Consolidated HY Dec 2017 \$	HY Dec 2016 \$
Cash flows from operating activities			
Cash receipts from customers		2,809,733	1,699,451
Payments to suppliers and employees		(5,438,865)	(3,043,857)
Interest paid		(21,057)	(4,692)
Interest received		1,931	2,258
Net cash used in operating activities		(2,648,258)	(1,346,840)
Cash flows from investing activities			
Payments for plant & equipment	8	(277,105)	(227,541)
Payments for intangible assets	9	(77,955)	-
Proceeds from disposal of plant & equipment		-	19,904
Net cash used in investing activities		(355,060)	(207,637)
Cash flows from financing activities			
Issuance of shares		13,299,000	1,516,433
Share issue costs		(1,447,292)	(83,652)
Net cash provided by financing activities		11,851,708	1,432,781
Net change in cash and cash equivalents		8,848,390	(121,696)
Net foreign exchange differences		(3,381)	(79,314)
Cash and cash equivalents at beginning of half-year		520,522	402,648
Cash and cash equivalents at end of half-year	6	9,365,531	201,638
Non-cash financing activities			
(i) Share issues			
232,192 pre-consolidation shares were issued as payment for interest on conversion of convertible notes		9,288	-
6,839,999 pre-consolidation shares were issued as consideration to extend the maturity date of convertible notes		342,000	-
675,000 pre-consolidation shares were issued to a Director as payment for remuneration		33,750	-
Total non-cash financing activities		385,038	-

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

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1 Corporate information

This financial report of Carbonxt Group Limited (the 'Company') for the half-year ended 31 December 2017 was authorised for issue in accordance with a resolution of the directors on 26 February 2018.

Carbonxt Group Limited (the Parent) is a company limited by shares incorporated in Australia. Subsequent to the end of the reporting period, the shares were listed on the ASX on 23 January 2018. Carbonxt Group Limited does not have an ultimate holding company. The Company is a For Profit entity.

The nature of the operations and principal activities of the Group are described in the directors' report.

2 Summary of significant accounting policies

(a) Basis of preparation

These interim financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Company as in the full financial report. It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2017.

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied. All amounts are presented in Australian dollars which is the Company's functional and presentation currency, unless otherwise noted. The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Where necessary, comparatives have been reclassified for consistency with disclosures.

For the purpose of preparing the interim report, the half-year has been treated as a discrete reporting period.

(b) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Carbonxt Group Limited. During the half-year the Group operated principally in one business segment being the development of technologies for capturing mercury and other emissions from coal fired power stations and in one geographical segment being the United States

(d) Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2017, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for reporting periods beginning on or after 1 July 2017.

3 Critical accounting estimates and judgements

The preparation of interim financial reports 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.

In preparing this interim report, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial report for the year ended 30 June 2017.

4 Revenue

	Consolidated	
	HY Dec 2017	HY Dec 2016
	\$	\$
Income		
Sales	3,031,095	1,337,630
Other Income		
Interest income	1,931	2,258
Total other income	1,931	2,258
Total income	3,033,026	1,339,888

5 Expenses

	Consolidated	
	HY Dec 2017	HY Dec 2016
	\$	\$
Loss before income tax includes the following expenses:		
Finance costs		
- Interest expense	21,057	4,692
- Imputed interest expense - convertible notes	31,781	85,343
- Amortisation of convertible note modification costs	26,000	-
Total finance costs	78,838	90,035
Employee benefit expense		
- Wages, salaries and directors' fees	1,119,117	741,286
- Options issued to directors	36,165	-
- Share based payments as remuneration	33,750	-
Total employee benefits expense	1,189,032	741,286
Other expenses		
- Legal fees	206,384	22,609
- Royalty payable fair value adjustment	143,128	368,866
- Occupancy costs	75,025	71,169
- Options expense (non-employees)	213,494	-
- Share based payments (non-employees)	9,287	-
- Product development	190,299	82,322
- Insurance	118,768	119,433
- Other	15,353	77,138
Total other expenses	971,738	741,537

6 Current assets – Cash and cash equivalents

	Consolidated	
	Dec 2017	Jun 2017
	\$	\$
Cash at bank and on hand	9,365,531	520,522
Total cash at bank and on hand	9,365,531	520,522

7 Current assets – Other current assets

	Consolidated	
	Dec 2017	Jun 2017
	\$	\$
GST receivable	110,670	40,817
Prepaid inventory	338,460	-
Prepayments	191,950	21,600
Other assets	1,697	-
Total other current assets	642,777	62,417

8 Non-current assets – Plant and equipment

	Consolidated	
	Dec 2017	Jun 2017
	\$	\$
At cost	2,353,095	2,108,190
Accumulated depreciation	(566,878)	(540,697)
Total plant and equipment	1,786,217	1,567,493

Movements in Carrying Amounts

Movement in the carrying amounts for property, plant and equipment between the beginning and the end of the current half-year:

	Consolidated	
	Dec 2017	Jun 2017
	\$	\$
Opening balance at 1 July	1,567,493	1,120,451
Additions	277,105	566,526
Disposals	-	(24,974)
Exchange differences	(24,434)	(37,519)
Depreciation expense	(33,947)	(56,991)
Carrying amount at period end	1,786,217	1,567,493

The additions were principally in relation to development of an AC pellet production facility, which is expected to be commissioned in the second half of the financial year.

9 Non-current assets – Intangible assets

	Consolidated	
	Dec 2017	Jun 2017
	\$	\$
Intellectual property		
Owned and licensed patents and pending patents at cost	2,407,567	2,338,038
Accumulated amortisation	(898,822)	(828,130)
Total intangible assets	1,508,745	1,509,908

Movements in Carrying Amounts

Movement in the carrying amounts for intellectual property between the beginning and the end of the current half-year:

	Consolidated	
	Dec 2017	Jun 2017
	\$	\$
Opening balance at 1 July	1,509,908	1,587,705
Additions	77,955	149,546
Exchange differences	(20,131)	(102,331)
Amortisation expense	(58,987)	(125,012)
Carrying amount at period end	1,508,745	1,509,908

10 Current and non-current liabilities – Loans and borrowings

	Consolidated Dec 2017 \$	Jun 2017 \$
Current liabilities		
Loans	73,333	73,333
Convertible notes	-	2,401,534
Loans and borrowings	73,333	2,474,867
Non-current liabilities		
Convertible notes	2,117,315	-
Loans and borrowings	2,117,315	-

The convertible notes mature on 31 December 2019 (extended to 1 January 2022 on completion of IPO in January 2018) and have been recorded as a non-current liability as at 31 December 2017.

Movement of the convertible notes following conversion, extension of maturity date and re-measurement between the beginning and the end of the current half-year:

	\$	Notes
Opening balance of convertible notes at 1 July 2017	2,401,534	2,193,333
New convertible notes issued	2,002,000	2,002,000
Convertible notes repaid	(200,000)	(200,000)
Convertible notes converted to ordinary shares	(1,802,000)	(1,802,000)
New convertible notes issued on extension of existing maturity date	-	306,667
Imputed interest	31,781	-
Costs incurred in relation to modification to convertible notes	(342,000)	-
Amortisation of convertible note modification costs	26,000	-
Closing balance of convertible notes at 31 December 2017	2,117,315	2,500,000

(a) Convertible notes converted during the half-year

1,802,000 convertible notes were converted into ordinary shares during the half-year to 31 December 2017. Refer to Note 13(b).

(b) Outstanding convertible notes

The key terms and conditions are:

Amount:	2,500,000
Issue price:	\$1 per note
Maturity date:	31 December 2019 (extended to 1 January 2022 on completion of IPO in January 2018)
Interest rate:	8% payable six-monthly
Conversion:	\$0.50 per Note
Redemption:	Face value plus all interest accrued as cash

The movement in these notes during the half-year was:

	Number of notes	\$
Opening balance – 1 July 2017	2,193,333	2,401,534
New convertible notes issued on extension of existing maturity date	306,667	-
Imputed interest	-	31,781
Costs incurred in relation to modification to convertible notes	-	(342,000)
Amortisation of convertible note modification costs	-	26,000
Closing balance – 31 December 2017	2,500,000	2,117,315

11 Non-current liabilities – Other liabilities

	Consolidated	
	Dec 2017	Jun 2017
	\$	\$
Royalty payable	2,252,889	2,109,761
Total – Other liabilities	2,252,889	2,109,761

The Group has an exclusive licence to use its patented technology. Royalties are payable out of revenue received by the Group from the sale of products using the technology as follows:

- Sale price below US\$2,000 per ton – US\$20 per ton.
- Sale price of US\$2,000 to US\$2,500 per ton – 2% of revenue.
- Sale price of US\$2,500 to US\$3,000 per ton – 3% of revenue.
- Sale price above US\$3,000 per ton – 4% of revenue.

The patent was recognised as an intangible asset on acquisition at a deemed cost of \$1,445,822 and the corresponding liability for future royalties is valued using a probability weighted discounted cash flow methodology. The movement in the valuation of the liability of \$143,128 has been taken as an expense to the Statement of Comprehensive Income.

12 Earnings per share

	Consolidated	
	HY Dec 2017	HY Dec 2016
	\$	\$
a. Basic Loss per share		
i. Basic Loss per share (cents per share)	(5.29)	(4.80)
ii. Net loss used to calculate basic loss per share	(2,966,677)	(2,184,023)
Weighted average number of ordinary shares outstanding during the year used		
iii. in calculating basic loss per share	56,077,039	45,454,136
b. Diluted loss per share		
The Company's potential ordinary shares, being its options granted, are not considered dilutive as the conversion of these options would result in a decrease in the net loss per share.	(5.29)	(4.80)

13 Contributed equity

13 Contributed equity

	Consolidated		
	Dec 2016	Jun 2017	
	\$	\$	
(a) Share capital			
Ordinary Shares – Fully paid	57,076,542	44,679,176	
US Subsidiary Capital Premium	537,552	537,552	
Total share capital	57,614,094	45,216,728	
(b) Movements in ordinary share capital	Number of shares	Price per share	\$
Ordinary Shares			
Balance at 30 June 2017	523,223,795		44,679,176
2017 rights issue shortfall placement	29,940,000	\$0.05	1,497,000
Shares issued as payment for interest to convertible note holders	232,192	\$0.04	9,288
Shares issued as payment to convertible note holder to extend maturity date of convertible note	6,839,999	\$0.05	342,000
Shares issued as remuneration	675,000	\$0.05	33,750
Balance at 30 November 2017	560,910,986		
Consolidation at 10:1 on 6 December 2017 ¹	(504,819,722)		
Balance of shares on issue after Consolidation at 10:1	56,091,264		
Shares issued on conversion of Convertible Notes	3,217,857	\$0.56	1,802,000
Shares issued at Initial Public Offering	14,285,715	\$0.70	10,000,000
Issue costs			(1,286,672)
Sub total	17,503,572		12,397,366
Balance at 31 December 2017	73,594,836		57,076,542

¹ The share consolidation was approved by shareholders at the annual general meeting held on 30 November 2017

Capital Management

The Group has sufficient cash resources to meet its obligations for the foreseeable future.

Listing of the ASX

Following receipt of the letter of admission from the ASX on 21 December 2017 and subsequent to the end of the reporting period, the shares of the Company were listed on the ASX on 23 January 2018.

Escrowed securities

The number of securities subject to ASX restrictions and the restriction period applying to those securities are as follows:

- 1,865,627 fully paid shares escrowed for 12 months from the date of issue in 2017;
- 3,623,774 fully paid shares escrowed until 23 January 2020;
- 3,500,000 unlisted options with an exercise price of \$0.50 expiring on 30 November 2021 escrowed until 23 January 2020;
- 500,000 unlisted options with an exercise price of \$0.60 expiring on 2 June 2020 escrowed until 23 January 2020.
- 12,755,186 fully paid shares subject to voluntary escrow until the day the Company's HY19 financials have been released on the ASX platform, but in any event no later than 23 May 2019.

There are no externally imposed capital requirements.

14 Reserves

Nature and purpose of other reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Convertible note equity reserve

The Convertible Note Equity Reserve records the equity portion of the convertible notes issued as described in Note 13.

Fair value of financial liability reserve

This reserve records the fair value of investor loans converted to shares in 2008.

Share based payment reserve

This reserve records the fair value of the performance rights and options issued to directors and key executives and to third parties for services rendered.

	Fair value of financial liability	Share based payments reserve	Consolidated Convertible note equity reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$	\$
At 30 June 2017 *	8,853,868	2,772,127	563,131	157,860	12,346,986
Issue of options	-	249,659	-	-	249,659
Currency translation differences	-	-	-	(35,548)	(35,548)
At 31 December 2017	8,853,868	3,021,786	563,131	122,312	12,561,097

*30 June 2017 - Convertible note equity reserve has been adjusted to remove fair value movement and reflect the equity component of the convertible notes at the 12 November 2015 issue date, with a corresponding adjustment to Accumulated Losses.

15 Events after the balance sheet date

Following receipt of the letter of admission from the ASX on 21 December 2017 and subsequent to the end of the reporting period, the shares of the Company were listed on the ASX on 23 January 2018. In conjunction with the listing on the ASX, the Company raised \$10M at the initial public offering of 14,285,715 ordinary shares at \$0.70 each. Following the successful listing, the convertible notes' maturity date was extended to 1 January 2022.

No other matters or circumstances have arisen since the end of the half-year which significantly affected or could significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

16 Share-based payments reserve

	Dec 2017	Consolidated Jun 2017
	\$	\$
Share based payments allocated against reserve	249,659	-
Total share-based payments allocated against reserve	249,659	-

Schedule of share-based payments

	Dec 2017	Consolidated Jun 2017
	\$	\$
Issue of Options		
02 Dec 2017 3,500,000 options issued to Directors approved by shareholders at the AGM held on 30 November 2017	36,165	-
8 Jun 2017 500,000 options issued to Shaw and Partners as consideration for the placement of shortfall shares in the 2017 non-renounceable entitlements offer.	213,494	-
Total share-based payments allocated against reserve	249,659	-

Schedule of options

The following table details the number, weighted average exercise prices (WAEP) and movements in share options issued as employment incentives or as payments to third parties for services during the half-year.

	Dec-2017 Number	2017 WAEP
Outstanding at the beginning of the half-year	-	-
Unlisted options granted during the half-year	4,000,000	\$0.51
Outstanding at the end of the year	4,000,000	\$0.51

Options escrowed

3,500,000 unlisted options with an exercise price of \$0.50 expiring on 30 November 2021 are escrowed until 23 January 2020..
500,000 unlisted options with an exercise price of \$0.60 expiring on 2 June 2020 are escrowed until 23 January 2020.

Valuation assessment of unlisted options

The fair value of the unlisted options granted is estimated as at the date of grant using the Binomial Model for an American call option taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the half-year ended 31 December 2017.

	Issued to Directors	Issued to Shaw and Partners
Fair value at grant date	\$0.5199	\$0.4270
Number of options	3,500,000	500,000
Exercise/strike price (\$ per share)	\$0.50	\$0.60
Underlying share price	\$0.70	\$0.70
Valuation date	31-Dec-17	31-Dec-17
Expiry date	30-Nov-21	08-Jun-20
Volatility	100.0%	100.0%
Risk-free rate	2.34%	2.34%
Dividend yield	0.00%	0.00%
Type of options	American call	American call

17 Fair value disclosures*Fair value hierarchy*

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

The carrying amounts of cash, trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The table below shows the assigned level for each financial asset and liability held by the Group:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
30 June 2017				
Recurring fair value measurements				
Other loans	-	73,333	-	73,333
Royalty payable	-	-	2,109,761	2,109,761
Convertible notes payable	-	-	2,401,534	2,401,534
31 December 2017	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Recurring fair value measurements				
Other loans	-	73,333	-	73,333
Royalty payable	-	-	2,252,889	2,252,889
Convertible notes payable	-	-	2,117,315	2,117,315

There were no non-recurring fair value measurements for the half-year ended 31 December 2017.

There were no transfers between fair value hierarchy categories during the half-year.

Royalty payable

The terms of the liability have been disclosed in note 16. The fair value has been determined using the discounted cash flow method.

Significant unobservable valuation inputs are provided below:

- Sales price per ton: \$2,000 - \$3,000 per ton (June 2017: No change)
- Sales tons: 5,000 - 20,000t/p.a. (June 2017: No change)
- US Discount rate: 2.34% (June 2017: 2.30%) (risk free rate) at 31 December 2017

Significant increases (decreases) in the sales price per ton and tons sold would result in higher (lower) fair value of the royalty payable, while significant increases (decreases) in the discount rate would result in lower (higher) fair value of the liability.

Convertible notes payable

The terms of the liability have been disclosed in note 10.

Significant unobservable valuation inputs are provided below:

- Price per share: \$0.70 (June 2017: \$0.07) following a consolidation of 10:1 completed in December 2017
- Redemption premium: Face value plus all interest accrued as cash (June 2017: 125% or 150% of face value (depending on scenarios))
- Market based interest rate: 8% (June 2017: 20%)
- Australian Discount rate: 2.34% (June 2017: 2.50%) (risk free rate) at 31 December 2017.

18 Commitments and contingencies

Commitments

On October 24 2017, Carbonxt Inc. (as Lessee) entered into a lease agreement (Lease) with a Louisiana limited liability company (Lessor) to operate an industrial facility and equipment (Facility) for the manufacture of Activated Carbon from the premises (Premises). The facility is to have the capacity to manufacture up to 10,000 tons per annum of Activated Carbon.

The initial term of the lease is for 50 years (Initial Term), commencing 7 days after the Lessor delivers written notice to the Lessee that the Facility is ready for occupancy. The directors expect the Facility to be completed in April 2018.

The Lessee is required to make variable monthly payments (Variable Rent) based on a fixed amount per ton of activated carbon manufactured and sold by the Lessee during the preceding month to customers. The rental payments are due regardless of whether the Lessee is paid by its customers for the product delivery. The parties agreed to a minimum rent (Minimum Rent) period, which is estimated to be for three years. Based on the expected product volumes, the Directors expect that the Variable Rent will exceed the Minimum Rent.

Guarantees

Carbonxt Group Limited did not commit to nor make guarantees of any form as at 31 December 2017.

Contingent liabilities

There are no contingent liabilities as at 31 December 2017.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 7 to 21 are in accordance with the Corporations Act 2001:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting, the Corporations Regulations 2001; and other mandatory professional reporting requirements; and give a true and fair view of the financial position as at 31 December 2017 and of the performance for the half-year ended on that date of the company and consolidated group; and
 - b. giving a true and fair view of the Company's financial position as at 31 December 2017 and of its performance for the half-year ended on that date.
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.

This declaration is made in accordance with a resolution of the Board of Directors.



Director: _____

Warren Murphy

26 February 2018

Auditor's Review Opinion

Independent Auditor's Review Report to the Members of Carbonxt Group Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Carbonxt Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises of the interim consolidated statement of financial position as at 31 December 2017, the interim consolidated statement of profit or loss and other comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of description of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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.

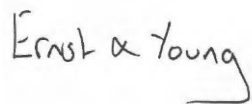
Auditor's Responsibility

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, anything has come to our attention that causes us to 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 Group's consolidated financial position as at 31 December 2017 and its consolidated financial 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 the Group, 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*.



Ernst & Young



Julian M. O'Brien
Partner
Sydney
26 February 2018