ASX RELEASE **30 April 2018**

March 2018 Quarterly Update

Carbonxt Group Ltd (ASX:CG1) has released its Appendix 4C Report for the March 2018 quarter and is pleased to provide the following update for the period. All numbers are in A$.

Revenue

- Revenue of $4.5m was recorded for the 9 months ended 31 March 2018, mostly from the sale of powdered activated carbon (PAC) for mercury removal from coal fired power station emissions. There is strong engagement with several potential new customers.
- First sales of PAC for mercury removal to non-power station customers (cement and fertiliser plants) were achieved in March quarter. Volumes are tracking ahead of business plan and this segment has more potential than previously expected.
- First sales of activated carbon (AC) pellets to the major customer under the ReACT contract are expected to commence in June 2018.

Production

- The Arden Hills AC pellet plant in Minnesota (company owned) has been commissioned and production of pellets for the ReACT contract is underway for delivery in June.
- Construction of the Black Birch PAC plant in Georgia (photo attached) is nearing completion and it should be fully commissioned by mid-June, around two months behind schedule due to bad weather and a technical issue with the milling machine that is being resolved.
- Black Birch is being developed by a third party to Carbonxt's specification and Carbonxt will have a 50-year lease of the facility from commissioning at a variable rent based on volume sold from the plant. Carbonxt has an option to acquire the facility and the economics of exercising the option will be assessed against the variable rent obligation when it is fully operational.

Market Opportunities

- Carbonxt's PAC has a clear competitive advantage because, unlike most competitors, it does not require the addition of bromine, which is known to cause corrosion of industrial plant and equipment. This advantage is leading to the strong customer engagement in power stations and other industrial facilities noted above.
- Carbonxt is one of only a few US based manufacturers of AC pellets and is receiving strong interest from local distributors that currently rely on imports from Asia, due to concerns about tariffs and trade barriers.
- These AC pellet opportunities can be serviced from the additional capacity at Arden Hills and the potential construction of a pellet line at Black Birch at relatively low cost.
- The lower PAC production cost at Black Birch will enable the company to enter the municipal potable water market, which has been scoped and should generate significant revenues from FY19.

FY18 Guidance

- In the Prospectus, it was assumed that the sale of pellets to the ReACT plant would commence in the March quarter, rather than the actual expected timing of June 2018 as noted above, resulting in some of the FY18 forecast revenue being deferred to FY19.
- Product costings from Black Birch are in line with expectations and should result in significant margin uplift of around 15% to 20% of revenue when the plant is commissioned.
- The delay in commissioning Black Birch means that this uplift will not be achieved in FY18 as assumed in the Prospectus. Reported margins in FY18 will be below Prospectus forecast, but in line with the actual margins achieved in 1H18.
- As a result of lower than expected revenue and margins, the EBITDA loss for FY18 will be higher than the Prospectus forecast.

FY19 Outlook

- The outlook for FY19 is very positive, with clear visibility of increased revenue from existing segments and new market opportunities.
- Margins are expected to significantly improve in FY19 after Black Birch is commissioned.
- Carbonxt remains on track to be profitable by 31 December 2018 as forecast in the Prospectus.
- There is potential for strong profit growth as revenue increases through economies of scale and the significant, low cost production capacity of the company's two plants.

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Near-complete Black Birch Production Facility, Georgia, USA