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June 2018 Quarterly Update

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

Revenue and Sales

- Revenue of $3.4m was recorded in 2H18, bringing total unaudited revenue for FY18 to $6.4m – a 68% increase on FY17 revenue of $3.8m.
- Revenue of $750k which was expected to be recorded in June 2018 has been deferred to the September quarter due to a combination of a delivery timing change requested by the customer and equipment issues at the Arden Hills facility that delayed production.
- If this revenue deferral had not occurred, total unaudited revenue for FY18 would have been $7.2m, in line with guidance provided in May.
- The production equipment issues are being worked through and are expected to be progressively resolved by 30 September.
- Subject to fully resolving the issues, the Company is on track to achieve record quarterly revenue in the September quarter and be profitable by the end of 2018.
- The higher revenue is being driven by increased demand from the ReACT power station Activated Carbon ("AC") pellet customer and strong demand for the Company's other industrial pellet products.
- Demand for the Company's industrial pellets is driven by customers being attracted to Carbonxt as one of the few US AC pellet manufacturers and their increasing concerns about the threat of import constraints and tariffs. The Company has deliberately not taken any significant formal orders for the pellet product pending resolution of the current production constraints, but discussions with potential customers indicate demand for around US$5m of product a year.
- As a result of demand for the pellets, the Company plans to install increased pellet manufacturing capacity at Arden Hills and potentially other locations after the current production equipment issues are resolved.
- Revenue generation has been further diversified during the June quarter, with new contracts for the Company's AC mercury removal products from non-power station customers and cement manufacturers, plus the first contract from a municipal authority for potable water purification.

Revenue and Margin Growth

- Carbonxt has commenced the supply of AC pellets to its major customer under the ReACT contract. Carbonxt is currently producing around $150k worth of pellets a week for this customer and demand is ramping up ahead of expectations.
- Contract activity during the quarter included:
    - extensions to contracts with two existing customers
    - two new customer contracts for the supply of powdered activated carbon
    - a new customer in the industrial pellet sector
- The commissioning of the Black Birch production facility has enabled Carbonxt to produce AC at much lower cost, resulting in higher margins and the potential to enter new markets such as the municipal potable water market, where the first customer has been secured.

- Margins are expected to steadily increase to 45% by the end of FY19, up from 27% in FY18.

Manufacturing Capacity Increased

- Black Birch powdered AC manufacturing plant commissioned and in production
    - Facility is to initially produce the equivalent of 3,000 tons per annum for existing mercury capture customers and has the capacity to ramp up to 10,000 tons when fully operational.
- Arden Hills AC pellet production facility commissioned and in production
    - Pellets are currently being supplied to the first power station in the US using *regenerative activated coke technology* (ReACT).
    - Production issues are being encountered and some equipment changes will be required for the plant to be fully operational. These changes are expected to be completed by the end of September.
- As a result of high demand for the AC pellet product, additional pellet capacity is planned at Arden Hills and potential other locations, and capital expenditure of around $400k is expected to be incurred in the September quarter to achieve this.

Growth Opportunities and Outlook

- Carbonxt will continue to leverage the non-corrosive competitive advantage of its non-brominated PAC and extend its footprint and customer base in the coal fired power station and other industrial markets in the US.
- The business has a strong pipeline of customer trials that it is advancing and hopes to secure further customer contracts in the coming quarter for its powdered AC and pellet products.
- The company is also exploring the opportunity to export its pellets to ReACT power plants in markets outside of the USA.
- A significant trial for the Company's wet scrubber product, WetJect, is to commence shortly with a leading US utility. WetJect has the potential to remove mercury more cost effectively than traditional air phase AC injection. WetJect is also produced at Black Birch.

Summary and Financial Outlook

The June quarter saw both the Black Birch and Arden Hills facilities commissioned and supplying to customers. Revenue increased and further revenue deferred to the September quarter provides the Company with a very solid start to FY19.

The new facilities and new supply source of raw materials has driven down cost of goods sold and gross margins are expected to increase to 45% by the end of FY19 versus 27% for FY18. Coupled with the growing revenue profile, the business remains on track to achieve profitability by the end of 2018.

Carbonxt Managing Director, Warren Murphy, commented: "We have secured a number of new contracts this quarter, both with existing customers and new customers in new markets, demonstrating the continued demand for our unique products and highlighting our competitive advantages.

“The market opportunity in AC pellets is exceeding our expectations and we are moving quickly to capitalise on this opportunity. We are pleased that both our manufacturing plants are now operational and supplying customers. The margin uplift we anticipate from the Black Birch facility in particular is already having a positive impact and profitability is expected before the end of the calendar year.”

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