28 November 2018

ASX ANNOUNCEMENT

Chairman's Address to AGM

At last year's AGM we received your approval to IPO the company and we subsequently listed on the ASX in January 2018.

Today's AGM is an opportunity for us to reflect on our achievements since listing and explain our future prospects. After an eventful year, the directors are pleased with the position we are in and the great potential we have to significantly increase our revenues over the coming months and become profitable in 2019.

We recognise that today's share price is below the IPO price, however we believe that fundamentally the company is worth more than its implied value based on the share price alone, and we are committed to proving this value over the coming months and years.

I'll outline today our progress under product development, production and sales.

Product Development

As outlined at the time of the IPO, our strategy is to broaden our product range to mitigate the risk of single product exposure to the US PAC (powdered activated carbon) mercury control market, commonly referred to as MATS.

Whilst this market still provides a backbone of revenue and margin for our company, the size of the MATS market is smaller than industry participants and experts had expected at the time of the IPO and competition is intense.

It's therefore important for us to explain to you today what we have done to broaden into other more lucrative sectors.

Our world class R&D team, lead by our US CEO David Mazyck, has made great progress in the last year, further developing and commercialising two particular products that were described in the prospectus but were still then at the formative stages. These are activated carbon pellets used for a broad range of industrial pollution control systems and our patented Wetject product, which has the potential to transform pollution control in the 60% of US coal fired power stations that use a wet scrubber.

Industrial AC pellets have a multitude of applications, ranging from solvent removal from printing facilities through to removal of noxious gas from sewerage treatment plants. The genesis of our pellet products was our existing contract to supply AC pellets to the first power station to be built in the USA using ReACT technology imported from Japan. We were able to use the know-how we developed in servicing the ReACT project to develop industrial pellets that are quite distinct from others in the market, which are mainly imported from China. Furthermore, Carbonxt is able to offer customers a locally manufactured pellet at a time of growing trade barriers and increased tariffs with China.

Potential customers are very highly engaged with Carbonxt in order to mitigate the risks posed by these tariffs and we have recently successfully trialled our pellets with a number of potential large customers; indeed, our first sales order is currently in production.

Our Wetject product was recently successfully trialled with one of the largest power utilities in the USA and we are confident of achieving commercial success next year.

Production

We now have three production facilities in the USA:

Black Birch in Georgia, which takes low cost biomass waste product and turns it into high quality PAC. This plant was commissioned earlier this year and production is now ramping up relatively smoothly. It currently operates at an annual capacity of 3,000 tons, most of which is shipped to our second plant at Arden Hills as the base material for pellets for our ReACT customer.

The next stage of the ramp up of Black Birch will involve roughly doubling capacity with the transfer of production of PAC for our existing MATS customers, which is currently outsourced, starting in early 2019. This will significantly boost margins on these contracted sales.

Arden Hills in Minnesota was also commissioned earlier this year to supply the ReACT customer. Unfortunately, we experienced a number of production issues in the start-up phase and the whole company had to mobilise to ensure we could maintain supply to this key customer, which we did, and I'm pleased to report that our relationship with the customer remains very strong. However, it did come at a cost in terms of additional labour, materials and other OPEX in the order of $1m, which will be reflected in our results for the first half of the financial year.

Despite these setbacks, Arden Hills will be a very profitable operation moving forward and to put this into perspective, the total cost to set up the plant, including capex and the aforementioned start up remedial costs is around $3m compared with current revenue being generated of around $10m a year. Furthermore, as we continue to fine tune production, the plant should have the capacity to produce industrial pellets for our new market opportunities in addition to the ReACT pellets.

Prairie Point in Florida is our new plant currently under development solely for production of industrial pellets. The design is similar to Arden Hills and we are using the learnings from that plant to ensure a smoother commissioning at Prairie Point. Most importantly, we will take our time to get it right. We are already producing pellets in modest quantities for our first customers and we expect the plant to be in full production by the second quarter of 2019.

Sales

Our annualised revenue is currently around $16m and we expect to bolster this significantly in 2019 as we start to make our mark in industrial pellets and then even further as we commercialise Wetject.

Current revenue is underpinned by contracts and long term purchase orders from MATS, ReACT and cement facility customers, and I'm pleased to report that we have fully repaid the $1m advance from the ReACT customer to assist in building the Arden Hills facility.

We are still evaluating the size of the total addressable market for our pellets, but it's clearly in the tens of millions of dollars. We believe that the deployment of funds from the recent capital raising into increasing pellet production capacity will generate significant returns.

We will provide a further update on the timing and amount of expected revenue growth with the release our half year results in February, when we will have clearer visibility of demand and have made further progress with the development of Prairie Point.

Outlook

We have a strong track record of generating revenue from our proprietary products, patenting their application and then refining their formulations to increase margins. Margin growth has been adversely impacted by the issues at Arden Hills, and this will be reflected in our 1H19 results, however we are now back on track and expect further margin expansion from the second half of the financial year. The introduction of industrial pellets and Wetject should add further to the bottom line in FY20.

As I mentioned at the start, the directors are very confident about our future prospects. We have achieved strong revenue growth, developed a suite of products with enormous potential and have shown that we can deal with the problems that inevitably arise as small companies like ours get off the ground.

We thank you for your continued support and look forward to seeing the value of the company increase as we start to realise this potential.