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Carbonxt Group Limited – December 2020 Quarterly Update

Leading, innovative pollution control and cleantech company, Carbonxt Group Ltd (ASX:CG1) ("Carbonxt" or "the Company") has released its Appendix 4C Report for the December 2020 Quarter and provides the following update on the key areas of activity for the period -- all numbers are in A$.

Overview

- Customer receipts of $3.5m were largely in line with the prior quarter.
- Industrial pellet sales were up by over 30% but offset by a late quarter drop in powdered activated carbon sales. The latter decline is a result of seasonality and underlying weak demand in the power utility sector, from the impact of COVID on utility operating patterns, as well as unplanned maintenance outages at select customer facilities.
- Additional industrial pellet sales are available to Carbonxt, but the payment terms from third party materials, most particularly high surface area carbons that are added to meet certain performance specifications, are unattractive. Strategic initiatives are in development to address these costs, discussed further below.
- The Company is moving aggressively forward on several significant cost savings with an immediate target of US$1m per annum.
- Net cash outflows from investing activities were $0.4m with promising advances made in novel pellet formulas expected to be commercialized late in calendar year 2021.
- The Company is in advanced discussions with a US manufacturing company to produce high volume base industrial pellets. This will allow the Company to focus on developing, producing and selling more specialized pellet products with higher resultant margins, whilst reducing the working capital impact of the purchase of third-party carbons.

Revenue and Operating Cash Flow

- The Company has commenced ramping-up deliveries of pellets manufactured under a tolling arrangement with a major customer. We expect 100 tons per month of sales in 2H21 in line with our forecasts for this customer.
- The Company also commenced deliveries for its recently won contract with a Mid-West municipality. The contract is for up to 1,000 tons per year to address water purification using Carbonxt's powder activated carbon (PAC) from its Black Birch facility.
- Within the MATS market, Carbonxt has two upcoming tests of PAC from its Black Birch facility at US utilities.

- The company is investigating kiln infrastructure at its Black Birch facility later in calendar year 2021 to produce a range of Kiln Activated Carbon Products. This will enable production of an expanded range of PAC and pellet products that will enable us to win a large international customer opportunity of up to 2,500 tons per year as well as bring in-house manufacturing of some raw materials that currently have lengthy working capital cycles.

Policy Environment
President Biden signed an executive order on 25 January 2021 strengthening Buy American provisions for federal government procurement. While the order is targeted at government entities, the new administration is strongly encouraging all businesses to favour domestically sourced products and services.

Furthermore, the Biden administration has shown strong early support of environmental initiatives including investment in the clean energy industry as well as reviewing rules made by the former administration that weakened environmental legislation.

As the only US producer of activated carbon pellets for the industrial market these initiatives bode well for the Company, as well as our expertise and focus on products addressing pressing environmental issues.

Industry Activities
Importers of activated carbon continue to experience delays and related cost increases from a shortage of shipping containers and less than normal production capacity reflecting the impact on worker availability from COVID-19.

Carbonxt is focussing its activities in the short-term to reduce and if possible eliminate any dependence on third party product suppliers. We expect to be able to comment more on these initiatives in the next few weeks.

Summary and Financial Outlook
The Company continues to expand its customer pipeline in activated carbon pellet products. In addition, pellet tolling opportunities are progressing with major customers and will be a higher mix of our sales going forward.

We are focussed on altering our manufacturing strategy on base pellets later this year and immediately reducing our cost base. These strategic changes will allow the Company to focus more on higher margin technologies that take advantage of our leading R&D, manufacturing capabilities and commercial relationships.

This announcement has been authorised for release to ASX by the Board of Directors of Carbonxt Group Limited.

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About Carbonxt

Carbonxt (ASX:CG1) is a cleantech company that develops and manufactures environmental technologies that support air and water emission requirements and the removal of harmful pollutants. The Company's primary operations are in the US and include a significant R&D presence as well as manufacturing plants for activated carbon pellets and powder activated carbon. Carbonxt continues to expand its pellet product portfolio to address numerous industrial applications.