ASX RELEASE 28 February 2020

Carbonxt Group Limited – 1H20 Results

Carbonxt Group Ltd (ASX:CG1) has released its half year results for the period ending December 31, 2019 - all numbers are in A$.

Overview

Carbonxt	1H20	% Change on 1H19
Revenues ($)	**$8.40m**	**-3%**
Gross Margin ($)	**$2.84m**	**+391%**
Operating Expenses	**$3.49m**	**-27%**
Underlying EBITDA	**($0.66m)**	**+87%**

- Revenue of $8.4 million was broadly in line with 1H19.
- Strong growth in higher margin activated carbon Pellet sales (+18.8% on 1H19), a market segment offering significant future growth opportunities.
- Powdered activated carbon sales were down -22.3% on 1H19, reflecting temporarily depressed power plant operations for certain customers.
- Gross Profit improved by 391%, reflecting the benefits gained from operating from our own facilities now economies of scale are being achieved.
- Cash operating expenses decreased by 27% on 1H19, primarily reflecting significant operating efficiencies within the activated carbon pellet segment, and led to an underlying EBITDA improved of 87%, with 2Q20 reaching breakeven.
- The Company has continued to experience sustained YoY improvements in Operating Cash Flow (+45% on 1H19), and is focused on executing a growth strategy centred on the activated carbon Pellet market.

Revenue

- The Company continues to be successful in extending its major utility supply contracts, including, in February, a three year extension for a Powered contract to a power station in the Mid-Atlantic region of the US. The Company is currently responding to a number of Powered tenders issued in recent weeks.
- The Company has recently expanded its portfolio of high-performance activated carbon pellet products that target specific contaminants. This allows the Company to address industries outside its traditional utility customer base and significantly expands the addressable market for its products. One such application is pellets for specific phosphate removal applications and this is expected to be an increasing part of the revenue mix.
- The successful commercialisation of these new product lines commenced late in the 1H20.

Operating Costs

- Shipping costs declined to 9% of revenue (from 12%) reflecting a higher mix of customers located near our production facilities, as well as transition to lower cost third party shipping companies.
- Operating costs (excl shipping) decreased 26.3% from the same period a year ago reflecting primarily non-recurrence of start-up costs at the Arden Hills Plant, as well as implementation of manufacturing efficiencies at both of our plants.

Industry Activities

- The Company continues to engage with regulatory policy development, including leading discussions at the Environmental Protection Agency (EPA) on bromine in the Effluent Limitation Guidelines. The EPA has recently added bromine to its list of targeted contaminants for control in the upcoming legislation.
- Currently our competitors typically brominate their Powdered Activated Carbon to enhance its absorption qualities for mercury capture. Carbonxt's product is at least as efficient without the addition of this contaminant and EPA controls over its disposal would materially strengthen our competitive position in the market.
- In addition, Carbonxt continues to focus on broadening into higher-end products, with the aim of building a competitive advantage at the forefront of advancements in activated carbon technology.

Intellectual Property Development

- The Company was granted two new patents including one focussed on pellet manufacturing and application technology.
- Additionally, three new pellet patents have been lodged with the US Patent and Trademark Office as the Company continues to build its intellectual property portfolio.
- The Company will soon commercialise a novel activated carbon pellet product to remove phosphate from liquid streams. Phosphate and nutrients in general are emerging contaminants which are gaining significant attention across the United States due to their negative economic impacts on industry, tourism and local communities. Carbonxt is at the forefront of developing solutions to address this growing market.
- The Company has strengthened its focus on sales through the repositioning of key personnel and has fortified its R&D team to accelerate the Company's execution of its pellet growth strategy.

Corporate Activities

- The Company executed a successful completion of a capital raising in 2Q20. We were pleased with the support of existing investors and welcomed multiple new institutions to the register.

Coronavirus

- In light of the global outbreak of COVID-19, Carbonxt confirms negligible impact to the business.
- With much of the industry sourcing product from China, it's our understanding that competitor supply chains are being impacted. While the Company hopes the COVID-19 outbreak is short-lived, an uplift in enquiries is being experienced as Risk Officers within US Utilities hedge supply risk.

- The $US has also strengthened as a result of the crisis, resulting in further translation benefits for the Company.

Summary and Financial Outlook

- The Company continues to develop its customer pipeline in particular with regards to activated carbon pellet products and is anticipating conversion of these opportunities to revenue producing customers in the coming months.
- Due to some delays in contracts that were expected to start earlier this calendar year, it seems likely that the Company will report FY20 revenue at the lower end of the current guidance of $24m - $29m. This is not yet confirmed, and investors will be updated should start-up volume *catch-up* to original expectations.
- The Company sees negligible sales impact from COVID-19, and if anything is seeing an uplift in enquiries. Carbonxt manufactures product in the US and to the best of our knowledge do not believe any part of our supply chain is reliant on imports from China nor impacted by COVID-19.

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

Enquiries

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About Carbonxt

Carbonxt (ASX:CG1) is a cleantech company that develops and markets specialised Activated Carbon (AC) products, primarily focused on the capture of mercury and sulphur in industrial processes that emit substantial amounts of harmful air pollutants. The Company produces and manufactures Powdered Activated Carbon and Activated Carbon pellets for use in industrial air purification, waste water treatment and other liquid and gas phase markets.

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 2019
Previous period:	For the half-year ended 31 December 2018

2. Results for announcement to the market

The Group has adopted Accounting Standard AASB 16 'Leases' for the half-year ended 31 December 2019 using the modified retrospective approach and as such the comparatives have not been restated.

				$
Revenues from ordinary activities	down	3.2%	to	8,394,724
Underlying Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA')	down	86.8%	to	(552,654)
Loss from ordinary activities after tax attributable to the owners of Carbonxt Group Limited	down	67.0%	to	(1,607,784)
Loss for the half-year attributable to the owners of Carbonxt Group Limited	down	67.0%	to	(1,607,784)

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

Comments
The loss for the Group after providing for income tax amounted to $1,607,784 (31 December 2018: $4,868,728).

The following table summarises key reconciling items between statutory loss after income tax and underlying EBITDA:

	Consolidated	
	31 Dec 2019	31 Dec 2018
	$	$
Revenue	8,394,724	8,671,721
Gross margin	2,835,120	576,540
Shipping and distribution costs	(734,833)	(1,032,334)
Operating expenses	(2,758,203)	(3,739,461)
Underlying EBITDA*	(657,916)	(4,195,255)
Depreciation and amortisation	(613,031)	(333,957)
Underlying earnings before interest and tax ('EBIT')*	(1,270,947)	(4,529,212)
Net interest expense	(389,070)	(257,129)
Share-based payment expense	-	(52,000)
Other non-cash items	52,233	(30,387)
Loss before income tax expense	(1,607,784)	(4,868,728)

* AASB 16 was adopted using the modified retrospective approach and as such the comparative EBIT and EBITDA have not been restated.

For further commentary refer to 'Review of operations' section within the Directors' report of the Interim Report and the attached market announcement.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	1.47	4.37

The net tangible assets calculation does not include rights-of-use assets of $5,767,995 (31 Dec 2018: $nil) but include the lease liabilities of $4,831,137 (31 Dec 2018: $nil).

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. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. 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, which contains an Emphasis of Matter paragraph regarding the preparation of the financial statements on a going concern basis, is attached as part of the interim report.

11. Attachments

Details of attachments (if any):

The Interim Report of Carbonxt Group Limited for the half-year ended 31 December 2019 is attached.

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12. Signed

Authorised by the Board of Directors.

Signed _____ Date: 28 February 2020

Warren Murphy
Managing Director
Sydney

Carbonxt Group Limited

ABN 59 097 247 464

Interim Report - 31 December 2019

Carbonxt Group Limited
Contents
31 December 2019

Carbonxt Group Limited
Directors' report
31 December 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Carbonxt Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

Directors

The following persons were directors of Carbonxt Group Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Matthew Driscoll - Chairman (appointed 5 August 2019)
Warren Murphy
David Mazyck
Bruce Hancox (resigned 5 August 2019)

Principal activities

During the financial half-year the principal continuing activities of the Group consisted of the development and sale of specialised Activated Carbon ('AC') products, including Powdered Activated Carbon ('PAC') and AC pellets for the removal of pollutants and toxins in industrial processes.

These products are used in industrial air purification, waste water treatment and other liquid and gas phase markets, primarily for the capture of mercury and sulphur in order to reduce harmful emissions into the atmosphere, as required by global regulations.

Review of operations

The loss for the Group after providing for income tax amounted to $1,607,784 (31 December 2018: $4,868,728).

Revenue for the half-year was $8,394,724 representing a decrease of 3.2% on the prior half-year's revenue of $8,671,721.

The following table summarises key reconciling items between statutory loss after income tax and underlying EBITDA:

	Consolidated	
	31 Dec 2019	31 Dec 2018
	$	$
Revenue	8,394,724	8,671,721
Gross margin	2,835,120	576,540
Shipping and distribution costs	(734,833)	(1,032,334)
Operating expenses	(2,758,203)	(3,739,461)
Underlying EBITDA*	(657,916)	(4,195,255)
Depreciation and amortisation	(613,031)	(333,957)
Underlying earnings before interest and tax ('EBIT')*	(1,270,947)	(4,529,212)
Net interest expense	(389,070)	(257,129)
Share-based payment expense	-	(52,000)
Other non-cash items	52,233	(30,387)
Loss before income tax expense	(1,607,784)	(4,868,728)

* AASB 16 was adopted using the modified retrospective approach and as such the comparative EBIT and EBITDA have not been restated.

Underlying EBITDA and underlying EBIT are financial measures which are not prescribed by Australian Accounting Standards ('AAS') and represent the profit or loss under AAS adjusted for non-specific non-cash and significant items.

1H20 revenue was marginally (3.2%) lower than 1H19 principally due to a temporary customer deferral. Gross margins materially improved over the half-year as production issues at our Arden Hills facility in 1H19 were overcome.

Inventories have increased by $1.2m in 1H20 due to a decision to produce finished goods for our largest customer to enable our manufacturing plant to transition to produce different pellet products for new and pending customers in 2H20. These new pellets have commenced production in January 2020.

Significant changes in the state of affairs

Capital raising

On 7 November 2019, as part of the 2019 Institutional Placement, the Company issued 4,153,673 ordinary shares raising a total of $1,495,322 before issue costs.

On 5 December 2019, as part of the 2019 Institutional Placement, the Company issued 6,957,438 ordinary shares raising a total of $2,504,678 before issue costs.

On 6 December 2019, as part of the 2019 Institutional Placement, the Company issued 6,702,626 ordinary shares raising a total of $2,412,945 before issue costs.

The 2019 Institutional Placement consisted of a total of 17,813,737 shares with an issue price of $0.36.

Manufacturing capacity

Black Birch PAC facility located in Georgia, USA.	Production in 2H20 is expected to be about 4,000 tons per annum equivalent. The plant has the capacity to produce 10,000 tons per annum. Management believes additional cost savings can be achieved through new utility supply contracts.
Arden Hills AC pellet plant facility located in Minnesota, USA	The production cost at this facility has significantly reduced over the period and further improvements are expected.

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 immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Warren Murphy
Managing Director

28 February 2020
Sydney

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

As lead auditor for the review of the half-year financial report of Carbonxt Group Limited for the half-year ended 31 December 2019, 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

Scott Jarrett
Partner
28 February 2020

Carbonxt Group Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2019

	Note	Consolidated 31 Dec 2019 $	31 Dec 2018 $
Revenue			
Sales revenue	4	8,394,724	8,671,721
Cost of goods sold		(5,559,604)	(8,095,181)
Gross margin		2,835,120	576,540
Net foreign exchange gain		25,233	36,490
Expenses			
Shipping and distribution costs		(734,833)	(1,032,334)
Employee benefits expense		(1,255,622)	(1,628,985)
Share-based payment expense		-	(52,000)
Depreciation and amortisation expense	5	(613,031)	(333,957)
Selling and marketing expenses		(481,173)	(642,747)
General and administrative expenses		(555,690)	(706,941)
Other expenses		(438,718)	(827,665)
Operating loss		(1,218,714)	(4,611,599)
Interest revenue calculated using the effective interest method		6,849	14,461
Finance costs	5	(395,919)	(271,590)
Loss before income tax expense		(1,607,784)	(4,868,728)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Carbonxt Group Limited		(1,607,784)	(4,868,728)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(123,423)	191,112
Other comprehensive income for the half-year, net of tax		(123,423)	191,112
Total comprehensive income for the half-year attributable to the owners of Carbonxt Group Limited		(1,731,207)	(4,677,616)
		Cents	**Cents**
Basic loss per share	17	(1.75)	(5.95)
Diluted loss per share	17	(1.75)	(5.95)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Carbonxt Group Limited
Statement of financial position
As at 31 December 2019

	Note	Consolidated 31 Dec 2019 $	30 Jun 2019 $
Assets			
Current assets			
Cash and cash equivalents		3,608,543	2,376,431
Trade and other receivables		1,585,490	1,697,948
Inventories	6	3,108,329	2,067,828
Other		634,428	646,512
Total current assets		8,936,790	6,788,719
Non-current assets			
Property, plant and equipment	7	6,497,429	10,604,763
Right-of-use assets	8	5,729,679	-
Intangibles		1,908,949	1,729,622
Total non-current assets		14,136,057	12,334,385
Total assets		23,072,847	19,123,104
Liabilities			
Current liabilities			
Trade and other payables		2,586,394	3,464,406
Borrowings	9	73,333	1,026,413
Lease liabilities	10	1,316,103	-
Employee benefits		90,853	173,989
Total current liabilities		4,066,683	4,664,808
Non-current liabilities			
Borrowings	11	4,282,275	7,516,055
Lease liabilities	12	3,515,034	-
Other liabilities		1,958,908	1,985,908
Total non-current liabilities		9,756,217	9,501,963
Total liabilities		13,822,900	14,166,771
Net assets		9,249,947	4,956,333
Equity			
Issued capital	13	69,225,208	63,200,387
Reserves		15,428,475	15,551,898
Accumulated losses		(75,403,736)	(73,795,952)
Total equity		9,249,947	4,956,333

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

Carbonxt Group Limited
Statement of changes in equity
For the half-year ended 31 December 2019

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2018	57,532,631	14,058,706	(67,124,031)	4,467,306
Loss after income tax expense for the half-year	-	-	(4,868,728)	(4,868,728)
Other comprehensive income for the half-year, net of tax	-	191,112	-	191,112
Total comprehensive income for the half-year	-	191,112	(4,868,728)	(4,677,616)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	5,677,611	-	-	5,677,611
Share-based payments	-	52,000	-	52,000
Balance at 31 December 2018	63,210,242	14,301,818	(71,992,759)	5,519,301

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2019	63,200,387	15,551,898	(73,795,952)	4,956,333
Loss after income tax expense for the half-year	-	-	(1,607,784)	(1,607,784)
Other comprehensive income for the half-year, net of tax	-	(123,423)	-	(123,423)
Total comprehensive income for the half-year	-	(123,423)	(1,607,784)	(1,731,207)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 13)	6,024,821	-	-	6,024,821
Balance at 31 December 2019	69,225,208	15,428,475	(75,403,736)	9,249,947

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

Carbonxt Group Limited
Statement of cash flows
For the half-year ended 31 December 2019

	Note	Consolidated 31 Dec 2019 $	31 Dec 2018 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		8,532,415	7,870,439
Payments to suppliers and employees (inclusive of GST)		(11,088,281)	(12,841,782)
		(2,555,866)	(4,971,343)
Interest received		6,849	14,461
Interest and other finance costs paid		(264,646)	(132,887)
Net cash used in operating activities		(2,813,663)	(5,089,769)
Cash flows from investing activities			
Payments for property, plant and equipment	7	(990,370)	(2,522,118)
Payments for intellectual property		(208,206)	(180,823)
Net cash used in investing activities		(1,198,576)	(2,702,941)
Cash flows from financing activities			
Proceeds from issue of shares	13	6,412,945	6,071,780
Share issue transaction costs	13	(388,124)	(394,169)
Repayment of lease liability		(780,470)	(342,720)
Net cash from financing activities		5,244,351	5,334,891
Net increase/(decrease) in cash and cash equivalents		1,232,112	(2,457,819)
Cash and cash equivalents at the beginning of the financial half-year		2,376,431	5,166,545
Cash and cash equivalents at the end of the financial half-year		3,608,543	2,708,726

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

Note 1. General information

The financial statements cover Carbonxt Group Limited as a Group consisting of Carbonxt Group Limited ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year (referred to in these financial statements as the 'Group'). The financial statements are presented in Australian dollars, which is Carbonxt Group Limited's functional and presentation currency.

Carbonxt Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office	Principal place of business
Level 12, Grosvenor Place 225 George Street Sydney NSW 2000 Australia	Suite 111 3951 NW 48th Terrace Gainesville FL 32606 United States of America

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2020.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements arising under Australian Securities Exchange Listing Rules and the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 2. Significant accounting policies (continued)

Other than those new standards outlined below, other changes to the accounting standards, including IFRIC 23, have been assessed and are not considered to be material. The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 16 Leases
The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption of AASB 16

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. There is no impact on opening accumulated losses as at 1 July 2019 as the right-of-use assets equal the lease liabilities as presented below:

	1 July 2019 $
Operating lease commitments as at 1 July 2019 (AASB 117)*	1,284,285
Operating lease commitments discount based on the weighted average incremental borrowing rate of 9.5% (AASB 16)	(176,021)
Payments in optional extension periods not recognised at 30 June 2019	210,129
Finance lease commitments as at 1 July 2019 (AASB 117)	4,127,528
Lease liability recognised on adoption 1 July 2019	5,445,921
Lease liabilities - current (AASB 16)	(1,265,270)
Lease liabilities - non-current (AASB 16)	(4,180,651)
Lease liability recognised on adoption 1 July 2019	(5,445,921)
Increase in opening accumulated losses as at 1 July 2019	-

* Being the operating lease commitments of USD900,438 as disclosed in the 30 June 2019 annual report, converted into AUD.

Practical expedients applied
In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:
- applying a single discount rate to a portfolio of leases with similar characteristics;
- accounting for leases which end within 12 months of the date of initial application as short term leases;
- excluding initial direct costs from the measurement of the right-of-use asset; and
- using hindsight in determining the lease term when the contract contains options to extend or terminate the lease.

Right-of-use assets
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Note 2. Significant accounting policies (continued)

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Going concern
The Group incurred a loss after tax of $1,607,784 and operating cash outflows of $2,813,663 for the half year ended 31 December 2019. At period end, cash and cash equivalents were $3,608,543. The Group is dependent on continued improvements in the operating performance of the business in order to generate positive operating cash flows. This results in a material uncertainty on whether the Group can continue as a going concern without future funding.

The Directors have assessed that the Group is and will remain a going concern and believe that the going concern basis of preparation of the accounts is appropriate, based upon the following:

- The Group has significantly improved the operating performance of the business;
- The Group can defer certain capital expenditures;
- The Group continues to proactively manage the cash flow requirements to ensure that funds are available when required; and
- The ability of the Group to obtain funding through various sources, including debt and equity issues which are currently being investigated by management/the Board.

Should the Group not achieve improvements to operating performance, there may be uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability or classification of the recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

Comparative information
Comparatives have been realigned to the current half-year presentation. There is no net effect on profit or loss and net assets for the comparative period.

Note 3. Operating segments

Identification of reportable operating segments
The Group only has one reportable segment being the development and sale of specialised Activated Carbon ('AC') products, principally in the United States of America.

The operating segment information is therefore the same as the financial statements.

Note 4. Revenue

Disaggregation of revenue
The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	31 Dec 2019	31 Dec 2018
	$	$
Major product lines		
Sale of activated carbon	8,256,999	8,532,588
Consultancy fees	137,725	139,133
	8,394,724	8,671,721
Geographical regions		
United States of America	8,394,724	8,671,721
Timing of revenue recognition		
Goods transferred at a point in time	8,394,724	8,671,721

Note 5. Expenses

	Consolidated	
	31 Dec 2019	31 Dec 2018
	$	$
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	203,244	151,248
Plant and equipment under lease	-	113,074
Plant and equipment right-of-use assets	341,424	-
Total depreciation	544,668	264,322
Amortisation		
Engineering Performance Solutions ('EPS) patents	45,180	45,180
Other patents	23,183	24,455
Total amortisation	68,363	69,635
Total depreciation and amortisation	613,031	333,957
Finance costs		
Interest and finance charges paid/payable on borrowings	212,595	132,887
Interest and finance charges paid/payable on lease liabilities	183,324	-
Convertible note imputed interest	-	138,703
Finance costs expensed	395,919	271,590
Leases		
Minimum lease payments	-	154,917
Variable lease payments	309,978	-
Short-term lease payments	48,226	-
	358,204	154,917

Note 6. Current assets - inventories

	Consolidated	
	31 Dec 2019	30 Jun 2019
	$	$
Raw materials - at cost	1,560,060	1,758,932
Activated carbon finished goods - at cost	1,548,269	308,896
	3,108,329	2,067,828

Note 7. Non-current assets - property, plant and equipment

	Consolidated	
	31 Dec 2019	30 Jun 2019
	$	$
Plant and equipment - at cost	4,688,744	4,688,571
Less: Accumulated depreciation	(1,170,732)	(996,289)
	3,518,012	3,692,282
Plant and equipment under lease	-	4,992,561
Less: Accumulated depreciation	-	(253,748)
	-	4,738,813
Construction in progress	2,979,417	2,173,668
	6,497,429	10,604,763

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Plant and equipment $	Plant and equipment under lease $	Construction in progress $	Total $
Balance at 1 July 2019	3,692,282	4,738,813	2,173,668	10,604,763
Additions	38,316	-	803,577	841,893
Disposals	(42,820)	-	-	(42,820)
Exchange differences	33,478	-	2,172	35,650
Transfers to right-of-use-assets	-	(4,738,813)	-	(4,738,813)
Depreciation expense	(203,244)	-	-	(203,244)
Balance at 31 December 2019	3,518,012	-	2,979,417	6,497,429

Note 8. Non-current assets - right-of-use assets

	Consolidated	
	31 Dec 2019	30 Jun 2019
	$	$
Plant and equipment - right-of-use	6,306,360	-
Less: Accumulated depreciation	(576,681)	-
	5,729,679	-

Note 8. Non-current assets - right-of-use assets (continued)

In addition to the transferred assets per note 7, additional right-of-use assets recognised at 1 July 2019 amount to $1,318,393.

The Group leases a building for its offices under a non-cancellable lease, expiring 21 March 2021. The Group also leases two industrial facilities as well as equipment for the manufacture of activated carbon from its premises. The facilities have the capacity to manufacture up to 17,000 tons per annum of activated carbon products. The initial term of the first lease is for 50 years with three additional terms of 10 years each. The lease commenced upon launch of operations in July 2018. Monthly lease payments began on 15 July 2018. This lease comprises of a combination of variable and fixed lease payments for the first five years. Subsequent to this, the lease payments will be variable. Variable lease payments are not recognised as right-of-use assets (or lease liabilities). For the half-year ended 31 December 2019, variable lease payments amounted to $309,978. The initial term of the second lease is for five years with one additional term of five years. The lease commenced on 1 January 2019.

Note 9. Current liabilities - borrowings

	Consolidated	
	31 Dec 2019	30 Jun 2019
	$	$
Loans	73,333	73,333
Finance lease liability	-	953,080
	73,333	1,026,413

Note 10. Current liabilities - lease liabilities

	Consolidated	
	31 Dec 2019	30 Jun 2019
	$	$
Lease liability	1,316,103	-

Note 11. Non-current liabilities - borrowings

	Consolidated	
	31 Dec 2019	30 Jun 2019
	$	$
Loan payable	4,282,275	4,341,607
Finance lease liability	-	3,174,448
	4,282,275	7,516,055

Note 12. Non-current liabilities - lease liabilities

	Consolidated	
	31 Dec 2019	30 Jun 2019
	$	$
Lease liability	3,515,034	-

Note 13. Equity - issued capital

	Consolidated			
	31 Dec 2019 Shares	30 Jun 2019 Shares	31 Dec 2019 $	30 Jun 2019 $
Ordinary shares - fully paid	106,973,165	88,802,285	69,225,208	63,200,387

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance	1 July 2019	88,802,285		63,200,387
Shares placement	7 November 2019	4,153,673	$0.36	1,495,322
Shares placement	5 December 2019	6,957,438	$0.36	2,504,678
Shares placement	6 December 2019	6,702,626	$0.36	2,412,945
Shares placement*	30 December 2019	357,143	$0.00	-
Issue costs		-	$0.00	(388,124)
Balance	31 December 2019	106,973,165		69,225,208

* On 30 December 2019, the Group issued 357,143 new fully paid ordinary shares to make a correction to the Group's share issue allocation relating to a pre IPO capital raise in 2017. The share issue price for the capital raise was $0.56 and consideration for the 357,143 shares had been received in full by the Company at that time and was recognised in equity. The related shares have therefore been disclosed above as issued during the period for nil consideration.

Note 14. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Note 15. Fair value measurement

Fair value hierarchy
The following tables detail the Group'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

Consolidated - 31 Dec 2019	Level 1 $	Level 2 $	Level 3 $	Total $
Liabilities				
Royalty payable	-	-	1,958,908	1,958,908
Total liabilities	-	-	1,958,908	1,958,908

Consolidated - 30 Jun 2019	Level 1 $	Level 2 $	Level 3 $	Total $
Liabilities				
Royalty payable	-	-	1,985,908	1,985,908
Total liabilities	-	-	1,985,908	1,985,908

There were no transfers between levels during the financial half-year.

Valuation techniques for fair value measurements categorised within level 2 and level 3
Royalties: Royalties payable are valued using a probability weighted discounted cash flow methodology.

Note 15. Fair value measurement (continued)

Level 3 assets and liabilities
The level 3 assets and liabilities unobservable inputs and sensitivity are as follows:

Description	Unobservable inputs	Sensitivity
Royalty	Sales price per ton: $1,000 - $3,000 per tonne (30 Jun 2019: $1,000 - $3,000 per tonne)	Significant increases/(decreases) in the sales price per ton would result in higher/(lower) fair value of the royalty payable.
	Sales tons: 3,000 - 20,000 tons p.a. (30 Jun 2019: 3,000 - 20,000 tons p.a.)	Significant increases/(decreases) in the tons sold would result in higher/(lower) fair value of the royalty payable.
	USA Discount rate: 1.83% (30 Jun 2019: 1.91%)	Significant increases/(decreases) in the discount rate would result in lower (higher) fair value of the royalty payable.

Note 16. Contingent liabilities

The Group had no contingent liabilities at 31 December 2019 and 30 June 2019.

Note 17. Earnings per share

	Consolidated	
	31 Dec 2019	31 Dec 2018
	$	$
Loss after income tax attributable to the owners of Carbonxt Group Limited	(1,607,784)	(4,868,728)
	Number	Number
Weighted average number of ordinary shares used in calculating basic loss per share	92,015,794	81,873,019
Weighted average number of ordinary shares used in calculating diluted loss per share	92,015,794	81,873,019
	Cents	Cents
Basic loss per share	(1.75)	(5.95)
Diluted loss per share	(1.75)	(5.95)

14,141,670 (31 December 2018: 4,975,000) options and warrants were excluded from the weighted average number of ordinary shares used in calculating diluted earnings per share as they were anti-dilutive.

Note 18. Events after the reporting period

The Group and Pure Asset Management ("Pure") have been discussing whether the Institutional Placement and Share Purchase Plan concluded in 1H20 triggered an adjustment to the Exercise Price of the warrants issued to Pure and related parties. The discussions are expected to conclude in the near future, which is likely to see a compromise reached such that the Exercise Price is reduced from $0.60 per share to $0.52 per share.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Carbonxt Group Limited
Directors' declaration
31 December 2019

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Warren Murphy
Managing Director

28 February 2020
Sydney

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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 2019, 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 2019 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*.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial report which describes the principal conditions that raise doubts about the entity's ability to continue as a going concern. These conditions along with other matters disclosed in Note 2 indicate the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

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 2019 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.

Building a better working world

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Scott Jarrett
Partner
Sydney
28 February 2020