CARBON REVOLUTION LIMITED

ABN 96 128 274 653

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

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Directors' Report

The directors of Carbon Revolution Limited ("the Company") submit herewith the annual report of the company and its controlled entities ("the Group") for the financial year ended 30 June 2018 in order to comply with the provisions of the *Corporations Act 2001*, the directors' report as follows.

Directors

The directors in office at any time during the financial year and up to the date of this report are:

- James Douglas
- Jake Dingle
- Brett Gass
- Bruce Griffiths
- Oliver Brauner
- Patrick Laemmli
- Lucia Cade

All directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal Activities

The principal activity of the Group during the financial year was the manufacture and sale of carbon fibre wheels and research and development projects related to carbon fibre wheel technology.

No significant change in the nature of these activities occurred during the year.

Results and Review of Operations

Carbon Revolution is a new technology manufacturing business which is in the process of commercialising its production processes. At this early stage of the businesses lifecycle it is essential that it has sufficient capital to fund the research and development required to fully industrialise its production facility and achieve profitability.

The Group incurred a net loss after tax of $20.24 million and generated negative cashflows from operating activities of $15.90 million during the year ended 30 June 2018. The Group is intending to continue to invest in the research and development required to bring its production processes to full commercialisation, and therefore remains in the pre-profitability stage of its lifecycle and dependent on capital investment.

To enable the continued operations of the Group, the Group is well progressed in the process of raising new capital. Appropriate advisors are engaged for the capital raising process, the relevant due diligence processes have been completed and engagement from potential investors has been strong.

Refer to Note 1 to the financial statements for further detail regarding the basis preparation of the financial statements.

Significant Changes in the State of Affairs

There have been no significant changes in the state of affairs of the Group.

Likely Future Developments

The Group is engaged in the process of raising capital, refer to Note 1 to the financial statements for further details.

Environmental Regulation

The Group's operations are subject to environmental regulations under the following laws of the Commonwealth or of a State or Territory:

- The Environmental Protection Act; and
- The Dangerous Goods Act

No breaches have occurred of the above regulations during the financial year and up to the date of this report.

Dividends Paid, Recommended and Declared

The Group has not declared or paid any dividends in respect of the 30 June 2018 financial year.

Events Subsequent to Reporting Date

There have not been any matters or circumstances that have significantly affected, or may significantly affect, the results reported in the financial statements.

Share Options

No options over issued shares or interests in the Company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

Indemnification and Insurance of Directors, Officers and Auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company and all executive officers of the company and of any related body corporate against a liability incurred as such a director or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Information on Directors and Officers of the Company

The skills, experience, expertise and special responsibilities of each person who has been a Director of the Company at any time during or since the end of the financial year is provided below, together with details of the company secretaries as at the year end.

Director Name	Particulars
James Douglas	**Chair** James Douglas joined the Board in 2011 and is a member of the Remuneration Committee and Chair of the Audit and Risk Committee and was Company Secretary until 13 September 2017. He is Investment Director at Acorn Capital and the founder of Newmarket Capital and previously held various executive roles in the financial services industry. He is a Non-Executive Director of Quickstep Holdings Limited. Mr Douglas has a Science degree and Law degree from Melbourne University and is a Graduate Member of the Australian Institute of Company Directors.
Jake Dingle	**Chief Executive Officer, Managing Director** Jake Dingle joined the board in 2008 as one of the initial investors and founders as Executive Chairman and transitioned into the CEO role in 2012. Previously he held various executive roles in engineering, operations, strategy and Mergers & Acquisitions within Australian listed and unlisted companies. He has a Mechanical Engineering degree from RMIT, an MBA from The Melbourne Business School and is a Graduate Member of the Australian Institute of Company Directors.
Brett Gass	**Executive Director** Brett Gass is a founder of Carbon Revolution and was appointed to the board in 2007. Previously he held various senior management roles within the automotive industry in Canada, US, Australia and Germany. He has an Engineering Physics degree from the University of Saskatchewan, Canada and is a Member of the Australian Institute of Company Directors.
Bruce Griffiths	**Non-Executive Director** Bruce Griffiths joined the board in 2014 and is Chair of the Remuneration Committee and is a member of the Audit and Risk Committee. He has held a number of senior Executive roles within the manufacturing industry and is a Board Member of the Industry Capability Network Limited (ICNL) and is a Non-Executive Director of Quickstep Holdings Limited. Mr Griffiths was awarded the Order of Australia Medal for services to the automotive manufacturing industry and to the community.

Oliver Brauner	**Non-Executive Director** Oliver Brauner joined the board in 2013 and is a member of the Audit and Risk Committee. He is Chief Financial Officer of the Ronal Group and has a MAS degree (Master of Advance Studies) in Accounting and Finance from HWZ/ University of Applied Science Zurich.
Patrick Laemmli	**Non-Executive Director** Patrick Laemmli joined the board in 2015 and is a member of the Remuneration Committee. He is Vice President Sales of the Ronal Group and has held several board responsibilities in Switzerland, USA, Mexico, Brazil, Hong Kong and the Czech Republic. He is a member of the executive management Team of Ronal Group, responsible for Marketing, Sales and Engineering.
Lucia Cade	**Non-Executive Director** Lucia Cade joined the board on 3 August 2018 as a non-executive director. Lucia has held various executive positions in the infrastructure and advisory industries. She is Chair of South East Water, and Non- Executive Director of Engineers Australia, the Regional Investment Corporation, the CRC for Energy Pipelines, the Future Fuels CRC and PuriflOH Ltd.
David Nock	**Company Secretary** David Nock was appointed Company Secretary on 13 September 2017 and holds the position since then. David has held a number of roles within Australian, US and European listed companies. He has Arts and Law Degrees from Melbourne University and an MBA from the Melbourne Business School.

Directors' Meetings

The number of meetings of the Board of Directors and of each Board committee held during the financial year and the number of meetings attended by each director were:

Board Meetings:

Director Name	Number of meetings eligible to attend	Number of meetings attended
James Douglas	8	8
Jake Dingle	8	8
Brett Gass	8	6
Bruce Griffiths	8	8
Oliver Brauner	8	6
Patrick Laemmli	8	7
Lucia Cade (appointed 3 August 2018)	-	-

Audit and Risk Committee Meetings:

Director Name	Number of meetings eligible to attend	Number of meetings attended
James Douglas	5	5
Bruce Griffiths	5	5
Oliver Brauner	5	4

Remuneration Committee Meetings:

Director Name	Number of meetings eligible to attend	Number of meetings attended
James Douglas	5	5
Bruce Griffiths	5	5
Patrick Laemmli	5	5

Auditor's independence declaration

The auditor's independence declaration for the year ended 30 June 2018 has been received and is found on page 7.

Rounding

The amounts contained in the Directors' Report and financial report have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors pursuant to section 298(2) of the *Corporations Act 2001*.

James Douglas	Jake Dingle
Chair	Managing Director
Melbourne, 29 August 2018	Melbourne, 29 August 2018

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

29 August 2018

The Board of Directors
Carbon Revolution Limited
Building NR
75 Pigdons Road
WAURN PONDS VIC 3216

Dear Directors

Carbon Revolution Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Carbon Revolution Limited.

As lead audit partner for the audit of the financial statements of Carbon Revolution Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants

Consolidated statement of profit or loss and other comprehensive income

For the Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Sale of wheels		6,725	7,118
Engineering services		1,254	681
Revenue	2.1	**7,979**	**7,799**
Cost of goods sold		(11,278)	(12,153)
Gross margin		**(3,299)**	**(4,354)**
Other income	2.1	3,842	3,771
Operational expenses		(3,378)	(2,305)
Research and development		(8,188)	(4,240)
Administrative expenses		(5,640)	(3,926)
Marketing expenses		(1,515)	(1,299)
Operating loss		**(18,178)**	**(12,353)**
Finance costs	2.2	(1,397)	(1,322)
Loss on revaluation of financial instrument	3.8	(666)	(505)
Loss before income tax expense		**(20,241)**	**(14,180)**
Income tax expense	2.4	-	-
Loss for the year after income tax		**(20,241)**	**(14,180)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences - foreign operations		(46)	20
Other comprehensive income		**(46)**	**20**
Total comprehensive loss for the year, net of tax		**(20,287)**	**(14,160)**

The accompanying notes form an integral part of these financial statements.

Consolidated statement of financial position

As at 30 June 2018

	Note	30 June 2018 $'000	30 June 2017 $'000	1 July 2016 $'000
Current assets				
Cash and cash equivalents	4.1	19,179	26,318	8,060
Current financial assets	4.1	-	18,000	-
Receivables	3.1	5,267	5,865	2,935
Inventories	3.2	4,014	3,692	2,994
Other current assets		282	71	100
Total current assets		**28,742**	**53,946**	**14,089**
Non-current assets				
Property, plant and equipment	3.3	18,031	13,168	9,162
Intangible assets	3.4	564	487	448
Total non-current assets		**18,595**	**13,655**	**9,610**
Total assets		**47,337**	**67,601**	**23,699**
Current liabilities				
Payables	3.5	4,531	3,727	2,179
Borrowings	4.2	22,243	1,863	144
Derivative financial liabilities	4.2	1,928	-	-
Deferred income	3.7	605	646	631
Provisions	3.6	1,407	974	811
Total current liabilities		**30,714**	**7,210**	**3,765**
Non-current liabilities				
Borrowings	4.2	-	22,150	16,995
Derivative financial liabilities	4.2	-	1,356	1,081
Deferred income	3.7	2,489	2,607	2,210
Provisions	3.6	320	193	117
Total non-current liabilities		**2,809**	**26,306**	**20,403**
Total liabilities		**33,523**	**33,516**	**24,168**
Net assets/(liabilities)		**13,814**	**34,085**	**(469)**
Equity				
Contributed equity		75,814	75,798	27,084
Reserves	4.6	(383)	(337)	(357)
Accumulated losses		(61,617)	(41,376)	(27,196)
Total equity		**13,814**	**34,085**	**(469)**

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes In Equity

For the Year Ended 30 June 2018

	Note	Contributed Equity	Share buyback reserve	Accumulated Losses	Foreign Currency Translation Reserve	Total Equity
		$'000	$'000	$'000	$'000	$'000
Balance as at 1 July 2016		**27,084**	**(311)**	**(27,196)**	**(46)**	**(469)**
For the year ended 30 June 2017:						
Net loss after tax for the year		-	-	(14,180)	-	(14,180)
Other comprehensive loss for the year		-	-	-	20	20
Total comprehensive loss for the year		**-**	**-**	**(14,180)**	**(26)**	**(14,160)**
Transactions with owners in their capacity as owners:						
Issue of share capital	4.5	50,448	-	-	-	50,448
Costs of equity raising		(1,734)	-	-	-	(1,734)
Total transactions with owners in their capacity as owners		**48,714**	**-**	**-**	**-**	**48,714**
Balance as at 30 June 2017		**75,798**	**(311)**	**(41,376)**	**(26)**	**34,085**
For the year ended 30 June 2018:						
Net loss after tax for the year		-	-	(20,241)	-	(20,241)
Other comprehensive loss for the year		-	-	-	(46)	(46)
Total comprehensive loss for the year		**-**	**-**	**(20,241)**	**(46)**	**(20,287)**
Transactions with owners in their capacity as owners						
Issue of share capital	4.5	53	-	-	-	53
Other		(37)	-	-	-	(37)
Total transactions with owners in their capacity as owners		**16**	**-**	**-**	**-**	**16**
Balance as at 30 June 2018		**75,814**	**(311)**	**(61,617)**	**(72)**	**(13,814)**

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Cash flow from operating activities			
Receipts from customers		7,217	7,084
Receipt of grants and research and development incentives		4,253	1,356
Payments to suppliers and employees		(26,759)	(20,966)
Interest received		782	591
Borrowing costs		(1,397)	(1,322)
Net cash used in operating activities	2.3	**(15,904)**	**(13,257)**
Cash flow from investing activities			
Payment for property, plant and equipment		(7,378)	(5,792)
Payment for intangible assets		(125)	(80)
Proceeds from sale of property, plant and equipment		131	29
Receipts from / (Payment for) financial assets		18,000	(18,000)
Net cash used in investing activities		**10,628**	**(23,843)**
Cash flow from financing activities			
Net proceeds from convertible loan facility		-	5,000
Funds received for share transfer		-	1,788
Repayment of third party borrowings		(1,863)	(144)
Net proceeds from share issue		-	48,714
Net cash provided by financing activities		**(1,863)**	**55,358**
Net (decrease) / increase in cash held		(7,139)	18,258
Cash at beginning of financial year		26,318	8,060
Cash at end of financial year		**19,179**	**26,318**

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the Year Ended 30 June 2018

Note 1: Significant accounting policies and corporate information

1.1. Corporate information

This note sets out the accounting policies adopted by Carbon Revolution Limited (the "company" or "parent") and its consolidated entities, collectively known as the "consolidated entity" or the "Group" in the preparation and presentation of the financial report. Where an accounting policy is specific to one note, the policy is described within the note to which it relates.

The financial report was authorised for issue by the directors as at the date of the Directors' Report.

Carbon Revolution Limited is an unlisted public company limited by shares, incorporated and domiciled in Australia. Its principle activity is the manufacture and sale of carbon fibre wheels, as well as research and development projects relating to carbon fibre wheel technology.

The address of the company's registered office and its principal place of business is:

Building NR
75 Pigdons Road
Waurn Ponds VIC 3216

1.2. Basis of preparation

This financial report is a general purpose financial report, for a for-profit entity which has been prepared in accordance with Australian Accounting Standards, Interpretations and other applicable authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. This is the first year the Group has prepared general purpose financial statements and, in accordance with AASB 1 First Time Adoption of Australian Accounting Standards, has assessed that this transition has had no impact on the reported financial position, financial performance or cashflows of the Group.

The financial report complies with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The financial report has been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

All values are rounded to the nearest thousand dollars unless otherwise indicated.

1.3. Going concern

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

For the year ended 30 June 2018, the consolidated entity incurred a loss after tax of $20.241m (2017: $14.180m) and reported negative net cash flows from operating activities of $15.904m (2017: $13.257m). As at 30 June 2018 the consolidated entity had a surplus of current liabilities over current assets of $1.98m.

Carbon Revolution is a new technology manufacturing business which is in the process of commercialising its production processes. At this early stage of the business's lifecycle it is essential that it has sufficient capital to fund the research and development required to fully industrialise its production facility and achieve profitability.

In addition, the Group's convertible loan facility will become payable in June 2019 in the event that the lender (Ronal AG) does not exercise its option to convert the $23 million loan facility to equity.

The Group has prepared a detailed cash flow forecast for the year ending 30 June 2019. Based on forecast revenue and operating costs, research and development and capital expenditure plans, the Group must raise equity or debt capital during the financial year ending 30 June 2019 to continue as a going concern. The cash flow forecast assumes a minimum capital raising of $50m over the forecast period (on the assumption that the lender converts the existing loan facility to equity).

During and since the end of the financial period the Group has made significant progress towards raising the requisite level of new capital. Appropriate advisors are engaged for the capital raising process, the relevant due diligence processes have been completed and engagement from potential investors has been strong.

The cash flow forecast demonstrates that the Group will have sufficient funds to meet its commitments over the next twelve months based on the above factors and for that reason the financial statements have been prepared on the basis that the Group is a going concern.

In the event that the Group is unsuccessful in the matters set out above, there is material uncertainty whether the Group will continue as a going concern and therefore whether it will realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

1.4. Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent and of it subsidiaries as at reporting date. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Any changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions.

1.5. Adoption of new accounting standards

The Group has adopted all new and revised accounting standards issued by the AASB that are relevant to its operations and are effective for the current reporting period. The adoption of these standards and interpretations did not result in a material change on the reported results and position or disclosures of the Group as they did not result in any changes to the Group's existing accounting policies. The new and revised accounting standards are as follows:

- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107: The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in note 4.
- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses: The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The revision has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle: The amendments clarify that the disclosure requirements in AASB 12 but had no effect on the Group.

1.6. Significant accounting judgements, estimates and assumptions

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are outlined in detail within the specific note to which they relate.

1.7. Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

1.8. Foreign Currency Translations and Balances

Functional and presentation currency

The consolidated financial statements are presented in Australian dollars which is also the functional currency of the parent entity and its Australian subsidiaries. The financial statements of each entity within the Group are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The Group has one overseas subsidiary in the United States of America ("US").

Transactions and balances

Transactions in US dollars are initially recorded by the Group's US subsidiary spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in US dollars are translated at the spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss as there are no items designated as hedges of the net investment in the foreign operation.

Non-monetary items that are measured in terms of historical cost in US dollars are translated using the exchange rates at the dates of the initial transactions and are not remeasured unless they are carried at fair value.

Overseas subsidiary

On consolidation, the assets and liabilities of the US operations are translated into Australian dollars at the closing rate on the reporting date. Income and expenses are translated at average exchange rates for the period, unless the exchange rate fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. All resulting exchange differences are recognised in Other Comprehensive Income and accumulated in the foreign currency translation reserve, a separate component of equity.

Note 2: Financial Performance

2.1. Revenue

2.1.1. Accounting Policies

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing discretion, and is also exposed to inventory and credit risks.

Sale of goods

Revenue from the sale of wheels and tooling is recognised when the company has transferred to the buyer the significant risks and rewards of ownership of the wheels or tooling, usually on delivery.

Rendering of services

Revenue from a contract to provide engineering, design and testing services is recognised when the relevant milestones and approvals under the customer contract have been achieved.

Interest revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Other revenue

Other revenue is recognised when the right to receive the revenue has been established.

Government Grants

Government grants income includes government grants and research and development incentive rebate amounts received or receivable by the Group. Grants and rebates are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

2.1.2. Other income

	2018 $'000	2017 $'000
Government grants	3,074	3,043
Interest income	698	675
Unrealised foreign exchange gain	63	7
Gain on sale of property, plant and equipment	-	22
Other income	7	24
	3,842	3,771

2.2. Expenses

2.2.1. Accounting Policies

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that take a substantial period of time to be ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur.

Depreciation

Property, plant and equipment, including leasehold improvements, are depreciated over their estimated useful lives, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the lesser of the assets estimated useful life and the expected term of the lease. Assets under finance lease are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The depreciation periods and method for each class of assets are:

Class of fixed asset	Depreciation period	Depreciation method
Manufacturing plant and equipment	7 to 10 years	Diminishing Value
Tooling	5 years	Diminishing Value
Equipment under finance lease	3 to 7 years	Diminishing Value
Leasehold improvements	20 years	Straight line
Other equipment	3 to 5 years	Diminishing Value

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the criteria in note 3.4.1 have been demonstrated.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation is calculated using a straight-line method to allocate the cost of intangible assets over their estimated useful lives. Amortisation commences when the intangible asset is available for use.

Patent and trademark amortisation

The Group has paid to acquire patents and trademarks. Patents and trademarks are amortised over a 15 year period.

2.2.2. Expenses

	2018 $'000	2017 $'000
Finance costs		
Interest on convertible loan facility	1,394	1,309
Interest on obligations under finance leases	3	13
	1,397	1,322
Salaries and employee benefit expense		
Wages and salaries	12,142	9,103
Post-employment benefits	858	687
Share based payments expense	53	-
	13,053	9,790
Obsolescence and impairment		
Provision for inventory obsolescence	2,281	516
	2,281	516
Depreciation and amortisation		
Property, plant & equipment	2,090	1,599
Patents and trademarks	48	41
	2,138	1,640
Loss on sale of property plant and equipment	11	-

2.3. Cash Flow Information

Reconciliation of profit for the period to cash flows from operating activities	2018 $'000	2017 $'000
Loss after income tax	(20,241)	(14,180)
Non-cash items from ordinary activities		
Depreciation and amortisation	2,138	1,640
Share based payment expenses	53	
Loss/(Profit) on sale of plant and equipment	11	(22)
Movement in inventory provision	2,280	516
Write off of assets	281	164
Loss on revaluation of financial instruments	666	505
Changes in assets and liabilities		
(Increase)/decrease in assets:		
- Receivables	(765)	(2,930)
- Inventories	(2,601)	(1,197)
- Other assets	1,152	29
Increase/(decrease) in liabilities		
- Payables	569	1,567
- Deferred income	(146)	412
- Provisions	699	239
Cash used in operating activities	(15,904)	(13,257)

2.4. Income and Other Taxes

2.4.1. Accounting Policies

Income and other taxes consist of Income Tax and Goods and Services Tax ("GST").

Income Tax

Current income tax expense or benefit for the current and prior periods is measured at the amount expected to be recovered from or paid to the tax authorities. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of GST tax, except where the taxes incurred are not recoverable from the Australian Taxation Office ("ATO") and is therefore recognised as part of the asset's cost or as part of the expense item. Receivables and payables are stated inclusive of taxes.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the consolidated statement of financial position.

2.4.2. Critical Accounting Estimates and Judgements

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. Refer to note 2.4.5 for details regarding unrecognised tax amounts.

2.4.3. Income Tax Expense

The major components of income tax expense are:

	2018 $'000	2017 $'000
Consolidated statement of profit or loss		
Current income tax charge/benefit	-	-
Adjustment for current tax relating to prior periods	-	-
Deferred income tax relating to the origination and reversal of temporary differences	-	-
	-	-

	2018 $'000	2017 $'000
The prima facie tax benefit on loss before tax differs from the income tax expense as follows:		
Accounting loss before tax	(20,241)	(14,180)
Benefit at the Australian statutory income tax rate of 30% (2017: 30%)	6,072	4,254
Tax impact of:		
Non-deductible expenses	(1,606)	(1,246)
Non-assessable income	597	630
Impact of different tax rates in foreign jurisdictions	(74)	(85)
Benefit of current year taxable loss not recognised	4,989	3,553
Income tax benefit	-	-

2.4.4. Deferred Taxes

	2018 $'000	2017 $'000
Deferred tax assets		
Provisions and accruals	1,241	698
Embedded derivative	351	152
Other	7	7
	1,599	857
Deferred tax liabilities		
Receivables	-	(25)
Capital raising costs	(113)	(114)
Other	(1)	-
	(114)	(139)
Net deferred tax asset	1,485	718
Deferred taxes not recognised	**1,485**	**718**

2.4.5. Unrecognised Deferred Tax Assets

At 30 June 2018 the Group has unrecognised deferred tax assets of $38.6m (2017: $24.3m) mainly relating to unrecognised tax losses in Australia.

The Group has not recognised the net deferred tax asset relating to balance sheet items as described in accounting judgements and estimates at note 2.4.2.

Note 3: Assets and Liabilities

This section shows the assets used to generate the Group's revenue and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are disclosed in Section 4. Deferred tax assets and liabilities are disclosed in note 2.4.

3.1. Receivables

3.1.1. Accounting Policies

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans or receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Where applicable, interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Collectability of trade debtors is reviewed at each reporting period based on the specific customer details and historical rates of recovery to determine the required impairment, if any. Debts that are known to be uncollectible are written off when identified.

3.1.2. Receivables balances

	2018 $'000	2017 $'000
Current		
Trade receivables	2,287	1,465
Other receivables	2,419	3,834
GST recoverable	561	566
	5,267	5,865

Other receivables relate to research and development tax incentive refunds due to the Group.

As at 30 June, the ageing analysis of trade receivables is as follows:

	Total $'000	<30 days $'000	30-60 days $'000	61-90 days $'000	91-180 day $'000s	>180 days $'000
2018	2,287	1,532	589	35	131	-
2017	1,465	840	365	49	210	-

See note 4.4 regarding credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables. There is currently no provision for doubtful debts as the Group is confident of recovery of all customer debt amounts on the balance sheet at year end.

3.2. Inventories

3.2.1. Accounting Policies

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw Materials – recorded at standard cost, reassessed annually.
- Finished goods and work-in-progress – standard cost of direct materials, labour, outsourced processing costs and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.
- Consumables and spare parts – recorded at purchase price. Consumables and spares are assessed for ongoing usefulness and written off if they are no longer likely to be of use.

Inventory obsolescence provision includes allowance for trial wheels, production scrap and obsolete stock.

3.2.2. Inventories balances

	2018 $'000	2017 $'000
Current		
Raw materials	1,709	981
Work in progress	3,912	2,222
Finished goods at cost	1,062	985
Consumables and spare parts	1,024	916
Provision for trial wheels, obsolescence and scrap	(3,693)	(1,412)
Inventories at the lower of cost and net realisable value	4,014	3,692

3.3. Property, Plant and Equipment

3.3.1. Accounting Policies

Property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses.

An asset's residual value and useful life is reviewed, and adjusted if appropriate, at the end of each reporting period. Any depreciation and impairment losses of an asset are recognised in profit or loss.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss when the asset is derecognised.

3.3.2. Property, Plant and Equipment balances

	Capital works in progress $'000	Leasehold improve-ments $'000	Manufact-uring equipment $'000	Tooling $'000	Other equipment $'000	Total $'000
Gross Cost	4,726	2,621	5,273	4,376	611	17,607
Less accumulated depreciation	-	(269)	(1,911)	(2,003)	(256)	(4,439)
At 30 June 2017	**4,726**	**2,352**	**3,362**	**2,373**	**355**	**13,168**
Gross Cost	4,966	2,672	10,279	5,573	807	24,297
Less accumulated depreciation	-	(401)	(2,889)	(2,655)	(321)	(6,266)
At 30 June 2018	**4,966**	**2,271**	**7,390**	**2,918**	**486**	**18,031**
Movement in carrying amounts						
Balance at 1 July 2016	1,049	2,521	3,153	2,105	334	9,162
Additions	6,178	-	-	-	-	6,178
Transfer into/(out of) Capital WIP	(2,081)	31	926	1,007	117	-
Depreciation expense	-	(200)	(627)	(679)	(93)	(1,599)
Disposals/write-offs	(420)	-	(90)	(60)	(3)	(573)
Balance at 30 June 2017	**4,726**	**2,352**	**3,362**	**2,373**	**355**	**13,168**
Additions	7,378	-	-	-	-	7,378
Transfer into/(out of) Capital WIP	(6,815)	51	5,048	1,457	259	-
Depreciation expense	-	(132)	(1,009)	(830)	(119)	(2,090)
Disposals/write-offs	(323)	-	(11)	(82)	(9)	(425)
Balance at 30 June 2018	**4,966**	**2,271**	**7,390**	**2,918**	**486**	**18,031**

The carrying amount of plant and equipment under finance lease included above amounted to nil (30 June 2017: $195,787). Capital works in progress includes leasehold improvements, manufacturing equipment, tooling and other equipment that are under construction as at the reporting date.

3.4. Intangible assets

3.4.1. Accounting Policies

Patents and trademarks

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

An intangible asset's residual value and useful life is reviewed, and adjusted if appropriate, at the end of each reporting period or more frequently if appropriate. Any amortisation or impairment losses are recognised in profit or loss. The Group has no indefinite lived intangible assets.

Gains and losses on disposal or derecognition are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss when the asset is derecognised.

For details of the amortisation policy for patents, refer to note 2.2.1.

Capitalised development costs

Development expenditure is capitalised when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. Refer to note 2.2.1 for the accounting policy in relation to amortisation of capitalised development costs.

As at 30 June 2018 the Group has no capitalised development costs.

3.4.2. Intangible asset balances

Patents and trademarks	**2018 $'000**	**2017 $'000**
Gross Cost	753	628
Less accumulated depreciation	(189)	(141)
	564	**487**

Movement in carrying amounts		
Opening balance	487	448
Additions	125	80
Depreciation expense	(48)	(41)
Closing balance	**564**	**487**

3.5. Payables

3.5.1. Accounting Policies

Trade and other creditors and accruals are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Payables are non-interest bearing and are settled based on the specific creditor terms.

Other payables includes interest payable on borrowings which is accrued monthly and paid quarterly.

For further policy detail regarding the Group's liquidity risk management processes refer to note 4.3.

3.5.2. Payables balances

	2018 $'000	2017 $'000
Current		
Unsecured liabilities		
Trade payables	2,763	2,000
Accruals	1,401	1,297
Other payables	367	430
	4,531	3,727

3.6. Provisions

3.6.1. Accounting Policies

Non-employee provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, for which it is probable that an outflow of economic benefits will result in an amount that can be reliably measured.

Employee Benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required, and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Warranty claims

Provisions for warranty-related costs are recognised when the wheel is sold to the customer based on management judgement and a growing body of historical experience. The estimate of warranty related costs is reassessed annually.

3.6.2. Provision balances

	Employee benefits $'000	Warranty claims $'000	Total $'000
Current	515	459	974
Non-current	193	-	193
At 30 June 2017	708	459	1,167
Current	824	583	1,407
Non-current	320	-	320
At 30 June 2018	1,144	583	1,727
Movement in carrying amounts			
Balance at 1 July 2016	546	382	928
Provided for during the year	589	77	666
Utilised during the year	(427)	-	(427)
Balance at 30 June 2017	708	459	1,167
Provided for during the year	850	124	974
Utilised during the year	(414)	-	(414)
Balance at 30 June 2018	1,144	583	1,727

3.7. Government Grants

Government grants have been received to assist with the purchase of certain items of plant and equipment as well as the cost of employment of new employees. The conditions attached to these grants will be fulfilled progressively over the period of the grant. For recognition policies, refer to note 2.1.1.

	2018 $'000	2017 $'000
At 1 July	3,253	2,841
Received during the year	937	1,356
Released to the statement of profit or loss	(1,096)	(944)
At 30 June	3,094	3,253
Current	605	646
Non-current	2,489	2,607
	3,094	3,253

3.8. Fair Value Measurements

3.8.1. Accounting Policies

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The fair value of financial assets and financial liabilities not measured at fair value approximates their carrying amounts as disclosed in the Statement of Financial Position and Notes to the Financial Statements, unless disclosed otherwise.

3.8.2. Fair Value Hierarchy

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2018				
Financial liabilities – recurring fair value measurement				
Convertible loan facility conversion rights	-	-	1,928	1,928
30 June 2017				
Financial liabilities – recurring fair value measurement				
Convertible loan facility conversion rights	-	-	1,356	1,356

3.8.3. Critical Accounting Estimates and Judgements

In estimating the fair value of the financial liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, significant management judgement is required to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of the financial liability are disclosed in note 3.8.4.

3.8.4. Valuation Techniques and Inputs used in Level 2 and 3 Fair Value Measurements

The fair value of the conversion feature embedded in the convertible loan facility is determined by modelling the share price in a Monte Carlo simulation, weighted for the expected probability of the different methods of raising capital.

The significant unobservable inputs to this technique are the share price, the date of conversion, the average volatility of comparator companies and the probabilities associated with the capital raising.

The following table discloses the range of values used for the significant unobservable inputs for the conversion feature embedded in the convertible loan facility recognised at fair value and classified as Level 3.

Significant unobservable inputs	Range	
	Min	Max
Share price	$3.00	$4.42
Date of Conversion	January 2019	January 2019
Volatility	29.3%	47.6%
Probability of different methods of capital raising	50%	100%

3.8.4. Valuation Techniques and Inputs used in Level 2 and 3 Fair Value Measurements (cont'd)

The fair value is sensitive to changes in the share price input with slight increases/decreases resulting in large increases/decreases of the valuation.

The sensitivity to volatility is moderated by the relatively short remaining life; increases in the volatility input do lead to increases in the valuation.

The most significant unobservable input would be the probabilities associated with different methods of raising capital and the impact on the embedded derivative of each scenario. Any variation in the associated probabilities would lead to significant changes in the overall valuation.

The sensitivity analysis bellows shows the impact of an increase or decrease of 10% of the unobservable inputs would have on the profit after tax.

Sensitivity Analysis	Impact on profit ($'000)	
	+10 %	-10%
Share price	(878)	740
Volatility	(150)	284
Probability of different methods of capital raising	(386)	386

Note 4: Capital Structure and Financing

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

When managing capital, the board's objective is to ensure the Group continues to maintain sufficient capital to enable it to pursue its commercial objectives. This is achieved through the monitoring of historical and forecast performance and cash flows.

4.1. Cash, cash equivalents and other financial assets

4.1.1. Accounting policies

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and investments in money market instruments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Other financial assets

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Certain categories of financial assets, such as trade receivables, are assessed for impairment on a collective basis even if they were assessed not to be impaired individually.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

4.1.2. Interest rates and maturities

	Interest rate %	Maturity	2018 $'000	2017 $'000
Cash at bank	0% - 1%	On demand	4,297	5,945
Cash at bank	2.1% - 2.56%	On demand	14,509	-
Short term deposits	1.9% - 2.49%	Less than 3 months	373	20,373
Other financial assets	2.24% - 2.44%	Greater than 3 months	-	18,000
			19,179	44,318

The Group holds $373,000 (2017: $373,000) on deposit as collateral for lease and banking facility obligations.

4.2. Borrowings and other financial liabilities

4.2.1. Accounting policies

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, borrowings, payables or, if applicable, derivatives.

All financial liabilities are initially recognised at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition and Measurement' permits the entire combined contract to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described above.

Financial liabilities at amortised cost

Other financial liabilities that are not classified as at fair value through profit or loss, including borrowings and payables are initially measured at fair value net of transaction costs and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Borrowing Costs

Borrowing costs can include interest expense, finance charges in respect of finance leases, amortisation of discounts or premiums, ancillary costs relating to borrowings, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed in the period which they are incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale.

4.2.2. Borrowings – interest rates and maturity

	Interest rate %	Maturity	2018 $'000	2017 $'000
Current borrowings				
Unsecured				
Finance leases	6.73%	May 2018	-	75
Funds received for share transfer process	Nil		-	1,788
Convertible loan facility	5.5%	June 2019	22,243	-
			22,243	1,863
Non-current borrowings				
Unsecured				
Convertible loan facility	5.5%	June 2019	-	22,150
			-	22,150

Funds received for share transfer process

In 2017, pursuant to the shareholders agreement, the Company acted as agent for a selling shareholder for the transfer of shares of which $1,788,000 was received prior to year-end. In July 2017, this was transferred to the selling shareholder concluding this transfer process.

Convertible loan facility

The Group has issued a convertible loan facility to Ronal AG, a related party. The convertible loan facility provides for up to $23m in borrowings at 5.5% interest per annum. The facility is due for repayment by 30 June 2019. Under the terms of the facility agreement, the loan is convertible into ordinary shares during a conversion period between 1 Jan 2019 and 31 Jan 2019, or in the event of an Initial Public Offering (IPO), at the per share price of the greater of $3.50 or a 20% discount to the IPO price or the most recent capital raising price. The convertible loan facility is carried at amortised cost. Interest payable on the convertible loan facility is included in payables and is paid quarterly. The interest on the facility is subject to 10% withholding tax.

4.2.3. Financial liabilities at fair value through profit or loss

	2018 $'000	2017 $'000
Convertible loan facility conversion rights	1,928	1,356

In April 2015 the Group entered into a convertible loan facility agreement with a shareholder. The agreement contains conversion rights, whereby the holder's interest may be converted into shares in the Group. The conversion rights give rise to an embedded derivative carried at fair value through profit or loss, refer to note 3.8.

4.2.4. Changes in liabilities arising from financing activities

	Opening balance $'000	Payments $'000	Interest $'000	Received $'000	Fair value movement $'000	Closing balance $'000
2018						
Finance leases	75	(78)	3	-	-	-
Convertible loan facility	22,150	(1,265)	1,265	-	93	22,243
Funds received for share transfer process	1,788	(1,788)		-	-	-
Convertible loan facility conversion rights	1,356	-		-	572	1,928
	25,369	(3,131)	1,268	-	666	24,171
2017						
Finance leases	158	(91)	8	-	-	75
Convertible loan facility	16,920	(1,100)	1,100	5,000	230	22,150
Funds received for share transfer process	-	-		1,788	-	1,788
Convertible loan facility conversion rights	1,081	-		-	275	1,356
Other loan	61	(65)	4	-	-	-
	18,220	(1,256)	1,112	6,788	505	25,369

4.3. Financial Risk Management

The Group is exposed to interest rate risk, currency risk, credit risk, commodity risk, and liquidity risk. The Group's senior management oversees the management of these risks to ensure the most appropriate use of the capital the Group has available to achieve its commercial objectives.

4.3.1. Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates is not significant because the major loan in place, being the convertible loan facility, is at a fixed 5.5% interest rate. The Group does not currently hedge its exposure to interest rate fluctuations due to the low level of exposure.

The exposure to fixed or floating interest rates is described below:

	Variable interest rate		Fixed interest rate		Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Financial assets						
Cash	18,806	5,945	-	-	18,806	5,945
Short term deposits	-		373	20,373	373	20,373
Other financial assets	-	-	-	18,000	-	18,000
Total financial assets	18,806	5,945	373	38,373	19,179	44,318
Financial liabilities						
Finance leases	-	-	-	75	-	75
Convertible loan facility	-	-	22,243	22,150	22,243	22,150
Total financial liabilities	-	-	22,243	22,225	22,243	22,225

4.3.2. Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to foreign currency risk relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency).

The Group's exposure to foreign currency risk exists primarily where certain customer receivables and supplier payables are denominated in a foreign currency. The primary currencies the Group has exposure to are US Dollars and Euros.

The Group does not currently have a sufficiently material exposure to any foreign currency for movements in the exchange rate to be considered a material financial risk.

4.3.3. Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions.

Cash and cash equivalents

The Group held cash and cash equivalents of $19.2m at 30 June 2018 (30 June 2017: $26.3m). The credit risk associated with cash and cash equivalents is considered as minimal as the cash and cash equivalents are held with reputable financial institutions in Australia.

Receivables

The concentrated nature of receivables with only a few customers requires that customer credit risk be assessed on a customer by customer basis. Outstanding customer receivables are regularly monitored and shipments to customers, to the extent that the Group retains ownership of the goods, are covered by insurance. An impairment analysis is performed at each reporting date on a customer by customer basis. The maximum exposure to credit risk at the reporting date is the carrying value of receivables. The Group does not hold collateral as security.

4.3.4. Liquidity Risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of operating cash flows and committed available credit facilities. The Group actively reviews its funding position to ensure the available facilities are adequate to meet its current and anticipated needs. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate borrowing facilities are maintained.

Maturity Analysis

The table below represents the estimated and undiscounted contractual settlement terms for financial instruments and management's expectation for settlement of undiscounted maturities.

	On demand $'000	< 3 months $'000	3-12 months $'000	1-5 years $'000	> 5 years $'000	Total $'000
2018						
Convertible loan facility	-	-	22,243	-	-	22,243
	-	-	22,243	-	-	22,243
2017						
Finance lease liability	-	-	75	-	-	75
Convertible loan facility	-	-	-	22,150	-	22,150
Funds received for share transfer process	1,788	-	-	-	-	1,788
	1,788	-	75	22,150	-	24,013

4.3.5. Fair Value Risk

The fair value of financial assets and financial liabilities not measured at fair value approximates their carrying amounts as disclosed in the statement of financial position and notes to the financial statements except as set out in Note 3.8.

4.4. Leasing

4.4.1. Accounting Policies

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

4.4.2. Finance leases

The Group had no finance leases as at 30 June 2018 (2017: $75,000 – interest rate of 6.73%).

There are no future minimum rental amounts payable under finance leases.

4.4.3. Operating leases

The Group has a 10-year operating lease over its production facility with optional extensions for up to a further 10 years.

The Group has also entered into an Agreement to Lease additional premises. The new premises will be available to commence leasing early in the 2019 financial year. The lease period is 10 years with optional extensions. This commitment has been included in the amounts below.

Future minimum rentals payable under non-cancellable operating leases and Agreement to Lease as at 30 June are, as follows:

	2018 $'000	2017 $'000
Within one year	772	250
After one year but not later than five years	3,346	1,048
More than five years	4,710	648
	8,828	1,946

4.5. Contributed Equity

	2018 Ordinary Shares	2018 $'000	2017 Ordinary Shares	2017 $'000
Balance at 1 July	50,854	75,798	34,038	27,084
Capital raising	15	53	16,816	50,448
Costs of capital raising	-	-	-	(1,734)
Other	-	(37)	-	-
Share split – June 2018	50,818,131	-	-	-
Balance at 30 June	50,869,000	75,814	50,854	75,798

Ordinary Shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

On 22 June 2018, in accordance with the shareholders agreement and section 254H *Corporations Act 2001*, shareholders voted that each share in the company shall be subdivided into 1000 shares effective immediately. At that point the 50,869 shares on issue immediately became 50,869,000 shares.

During the financial year ended 30 June 2018, the Company did not pay a dividend (30 June 2017: $nil).

4.6. Reserves

4.6.1. Share buy-back reserve

The share buy-back reserve relates to shares bought back from former owners of the business.

	2018 $'000	2017 $'000
Opening balance	311	311
Movement during the year	-	-
Closing balance	311	311

4.6.2. Foreign currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currency to Australian dollars are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

	2018 $'000	2017 $'000
Opening balance	26	46
Movement during the year	46	(20)
Closing balance	72	26

4.7. Share-Based Payment Arrangements

4.7.1. Accounting Policies

The Group operates several employee incentive schemes to remunerate employees, including senior executives, in the form of share-based payments.

The cost of share-based payments is determined by the fair value of the equity instruments granted at the date when the grant is made using an appropriate valuation model. That cost is recognised in employee benefits expense together with a corresponding increase in equity over the period of service and, where applicable, when the performance conditions are fulfilled (the vesting period).

The cumulative expense recognised for share-based payments at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of the equity instruments, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to a share-based payment, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an instrument and lead to an immediate expensing of the instrument unless there are also service and/or performance conditions.

No expense is recognised for instruments that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

4.7.2. Employee Share Plan

The Employee Share Plan ("ESP") was introduced in June 2018 and enables eligible employees to acquire shares in the company and take advantage of certain income tax concessions available. Eligible employees will be annually invited to apply for shares up to a value of $1,000. The shares will be held in trust for the employee and may be sold by the employee at any time after the first to occur of the following:

a) Elapse of 3 years from the date of grant;
b) Listing of the Company's shares on the ASX; or
c) Release of exercise restrictions by the Board.

The employee participant is entitled to receive any dividends or other income associated with the shares held in trust but is not entitled to participate in any dividend reinvestment plan operated by the company.

The fair value of shares granted under the ESP is determined based on the market price of the shares at grant date.

	2018	2017
Grant date	June 2018	-
Number of employees granted shares	83	-
Value of shares granted per employee	$1,000	-

4.7.3. Employee Share Investment Rights Plan

The Employee Share Investment Rights ("SIR") Plan was approved in June 2018. Under the SIR Plan, senior executives and other employees, as determined by the Board, will defer a portion of their short-term incentive payment to be held in trust in the form of SIR's. Employees invited to participate are also able to apply to salary sacrifice part or all of the remainder of their short term incentive in the form of SIR's.

Each share investment right is equivalent to one share and is settled only in shares with no cash alternative. The fair value of each SIR is determined based on the market price of the share at grant date. SIR's vest immediately at grant date and have a 15 year period before they lapse.

SIRs may be exercised at any time after the first to occur of the following:

a) Elapse of 3 years from the date of grant;
b) Listing of the Company's shares on the ASX; or
c) Release of exercise restrictions by the Board.

Participants are entitled to dividends which will be allocated in the form of additional SIR's of equivalent value to the dividend entitlement.

At 30 June 2018, no instruments had been issued under the SIR Plan.

4.7.4. Executive Option Plan

The Executive Option Plan was approved in June 2018 to provide a long-term incentive program for senior executives. Participation is at the discretion of the Board and options are subject to vesting conditions determined by the Board on a tranche by tranche basis related to performance of the individual, continued employment and performance of the company using total shareholder return (TSR) as a measure.

Options are subject to a minimum holding period being the latter of:

a) three years after the date on which the option was acquired; and
b) the earlier of:
   (i) listing of the Company's shares on the ASX, or
   (ii) five years after the date on which the option was acquired.

The exercise price of the options is equal to the market price of the underlying shares at grant date and there is no cash settlement option available to participants.

At 30 June 2018, no instruments had been issued under the Executive Option Plan.

Note 5: Other Notes

5.1. Related Party Disclosures

5.1.1. Information about subsidiaries

The table below lists the controlled entities of the Group.

Name	Principal activities	Country of incorporation	% equity interest 2017	% equity interest 2018
Carbon Revolution Operations Pty Ltd	Carbon fibre wheels	Australia	100	100
Carbon Revolution Technology Pty Ltd	Carbon fibre wheels	Australia	100	100
Carbon Revolution (USA) LLC	Carbon fibre wheels	United States	100	100

5.1.2. Deed of Cross Guarantee

All Australian entities are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Corporations Instrument 2016/785 dated 17 December 2016 issued by the Australian Securities and Investments Commission.

5.1.3. Key Management Personnel Compensations

	2018 $	2017 $
Compensation by category		
Short-term employment benefits	2,513,757	2,030,720
Post-employment benefits	110,616	109,776
Other long-term employment benefits	-	-
Share based payments	52,500	-
	2,676,873	2,140,496

5.1.4. Transactions with other related parties

Convertible loan facility

The Group's convertible loan facility was provided by Ronal AG, a related party, in the financial year ended 2015. Refer to note 4.2 for details.

Director services

Ronal AG provided the services of two directors on the Board. Fees incurred were $120,000 (2017: $120,000). This is unpaid as at year end.

5.2. Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2018 the parent entity of the Group was Carbon Revolution Limited. The parent entity applied the same accounting policies as the Group.

	2018 $'000	2017 $'000
Results of parent entity		
Loss for the year	51,915	4,459
Other comprehensive loss	-	-
Total comprehensive loss for the year	51,915	4,459
Financial position for the parent entity at year end		
Current assets	22,463	48,361
Total assets	39,385	92,344
Current liabilities	(24,571)	(2,125)
Total liabilities	(25,571)	(26,631)
Total equity of the parent company comprising of		
Contributed equity	75,814	75,798
Reserves	(311)	(311)
Accumulated Losses	(61,689)	(9,774)
Total Equity	13,814	65,713

5.3. Auditors remuneration

The auditor of the Group for the year ended 30 June 2018 is Deloitte (30 June 2017: Deloitte).

	2018 $	2017 $
Audit Services		
Audit and review of the financial report	35,000	33,045
Other Services		
Accounting advice and preparation of financial statements	3,000	12,700
Tax compliance	14,280	17,115
Tax advice and compliance – research and development offsets and rulings	80,275	66,215
	132,555	129,075

5.4. Accounting Standards issued but not yet effective at 30 June 2018

Australian Accounting Standards and Interpretations that are issued but are not yet effective up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards when they become effective.

Reference	Title	Application date of Standard	Application date for the Group	Applicability to the Group
AASB 15	*Revenue from Contracts with Customers*	1 January 2018	1 July 2018	Refer below
AASB 2014-10	*Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	1 January 2018	1 July 2018	Not applicable
AASB 2016-5	*Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*	1 January 2018	1 July 2018	Refer below
AASB 16	*Leases*	1 January 2019	1 July 2019	Refer below
AASB 17	*Insurance Contracts*	1 January 2021	1 July 2021	Not applicable
AASB 2017-1	*Amendments to Australian Accounting Standards – Transfers of Investment property, Annual Improvements 2014-2016 and Other Amendments*	1 January 2018	1 July 2018	Not applicable
AASB 2016-6	*Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*	1 January 2018	1 July 2018	Not applicable
AASB Interpretation 22	*Foreign Currency Transactions and Advance Consideration*	1 January 2018	1 July 2018	Refer below
AASB Interpretation 23	*Uncertainty over Income Tax Treatment*	1 January 2019	1 July 2019	Refer below
AASB 9	*Financial Instruments*	1 January 2018	1 July 2018	Refer below

AASB 15 *Revenue from Contracts with Customers*

AASB 15 was issued in December 2014, and amended in May 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under Australian Accounting Standards. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date, using the full retrospective method.

The Group has performed an assessment of the expected impact of AASB 15 on a contract by contract basis considering factors such as identification of what comprises each contract, the performance obligations there under, the timing of transfer of control of the goods to the customer, variable revenue and principal vs agent considerations.

The Group is not expecting AASB 15 to have a material impact on the financial results however the disclosures required under AASB 15 will be more detailed.

AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*

The AASB issued amendments to AASB 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements but as the Group has no cash settled or net settled share-based payment arrangements in place, no material impact is expected.

AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis, or a prospective basis under certain circumstances.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation to the extent it is applicable, the Group does not expect any effect on its consolidated financial statements.

AASB Interpretation 23 *Uncertainty over Income Tax Treatments*

The interpretation clarifies the application of the recognition and measurement criteria in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatment by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group does not expect any effect on its consolidated financial statements from IFRIC 23.

AASB 16 *Leases*

The key features of AASB 16 are as follows:

Lessee Accounting

- Lessees are required to recognise assets and liabilities for all leases on balance sheet with a term of more than 12 months, unless the underlying asset is of low value.

- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
- AASB 16 contains disclosure requirements for lessees.

Lessor Accounting

- AASB 16 substantially carries forward the lessor accounting requirements in the current lease standard AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
- AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

An assessment of the impact of AASB 16 on the financial performance and position of the Group is ongoing with a view to informing the transition decisions to be made before adoption of the new standard. It is not yet possible to make a reliable estimate of the impact of the standard on the Consolidated Financial Statements. Although the impact is yet to be quantified, given that at 30 June 2018 the Group is lessee to a large operating lease and is committed to undertake a further material operating lease of premises during the 2019 financial year, it is expected that the adoption of the standard will result in a material impact on the statement of financial position.

The Group does not expect to early adopt AASB 16.

AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* and all previous versions of AASB 9. AASB 9 brings together all three aspects of the accounting for financial instruments – classification and measurement, impairment and hedge accounting. AASB 9 is effective for annual periods beginning on or after 1 January 2018, which for Carbon Revolution Limited means initial application for the year ended 30 June 2019.

The Group plans to adopt the new standard on the required effective date and is not intending to restate comparative information as allowed by the transitional provisions of AASB 9. A preliminary assessment of the impact has been performed and given the relatively simple nature of the Group's financial instruments, no significant impact is expected.

Note 6: Unrecognised Items

6.1. Guarantees

The Group has entered into lease rental guarantees with a face value of $120,000 (30 June 2017: $120,000).

6.2. Lease property commitments

The Group has entered into an Agreement to Lease with Deakin University for additional premises. The new premises will be available to commence leasing early in the 2019 financial year. The lease period is 10 years with optional extensions. The base rental commitment is $543 thousand per year with increases for CPI.

6.3. Contingent Liabilities

The group has no contingent liabilities as at 30 June 2018.

Note 7: Subsequent Events

7.1. Subsequent events

There have been no events subsequent to 30 June 2018.

Directors' declaration

In accordance with a resolution of the directors of Carbon Revolution Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of Carbon Revolution Limited for the financial year ended 30 June 2018 are in accordance with the *Corporations Act 2001*, including:

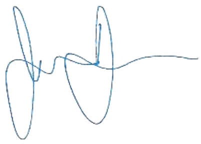
  (i) giving a true and fair view of the Groups financial position at 30 June 2018 and of its performance for the year ended on that date; and

  (ii) complying with Accounting Standards and the *Corporations Regulations 2001*;

(b) the financial statements and notes also comply with International Financial Reporting Standards; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable

This declaration has been made after receiving the declarations required to be made to the directors by the chief executive officer and chief financial officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2018.



Chair

Geelong

29 August 2018

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

Independent Auditor's Report to the Directors of Carbon Revolution Limited

Opinion

We have audited the financial report of Carbon Revolution Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Company, would be in the same terms if given to the Directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without modifying our opinion, we draw your attention to Note 1.3 in the financial report, which indicates that the company incurred a net loss of $20,241 thousand during the year ended 30 June 2018 and, as of this date, the Group's current liabilities exceeded its current assets by $1,972 thousand. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

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Other Information

(a) The directors are responsible for the other information. The other information comprises the information included in the Directors' declaration for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Deloitte.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants
Melbourne, 29 August 2018