

Results for announcement to the market

| | Percentage change | | Dec 2019 in \$000 | Dec 2018 in \$000 |
|---|----------------------|----|----------------------|----------------------|
| Revenue from ordinary activities | 243% up | to | 20,079 | 5,852 |
| Profit (loss) from ordinary activities after tax attributable to members | 873% down | to | (98,626) | (10,138) |
| Net profit (loss) for the period attributable to members | 873% down | to | (98,626) | (10,138) |

Dividends

No dividends were paid or declared since the commencement of the half-year and the directors do not recommend the declaration of a dividend.

Comments

The increase in loss has been significantly impacted by one-off items relating to the Initial Public Offering ("IPO") in November 2019. The growth in revenue was accompanied by an improvement in unit margins as the business drives efficiencies towards achieving sustainable profitability.

For more details around these activities kindly refer to the Directors' Report which forms part of the Half Year Financial Report also released today.

Net tangible asset

| | 31 December 2019 in \$000 | 31 December 2018 in \$000 |
|----------------------------------|---------------------------------|---------------------------------|
| Net tangible assets per security | 0.517 | -0.005 |

Audit review

This report has been based on the consolidated financial statements which have been reviewed by the Group's auditors. A copy of the unqualified review report can be found in the half-year report.

Additional information supporting the Appendix 4D disclosure requirements can be found in the Directors' Report and the consolidated financial statements for the half-year ended 31 December 2019.

The half-year report should be read in conjunction with the most recent annual financial report.



CARBON REVOLUTION LIMITED

ABN 96 128 274 653

HALF YEAR REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

TABLE OF CONTENTS

| | |
|--|----|
| Directors' Report..... | 3 |
| Auditor's Independence Declaration | 5 |
| Financial Report | |
| Condensed consolidated statement of profit or loss and other comprehensive income..... | 6 |
| Condensed consolidated statement of financial position..... | 7 |
| Condensed consolidated statement of changes in equity | 8 |
| Condensed consolidated statement of cash flows | 9 |
| Notes to the condensed consolidated financial statements..... | 10 |
| Directors' Declaration..... | 17 |
| Independent Auditor's Report..... | 18 |

Directors' Report

The directors of Carbon Revolution Limited ("the Company") submit herewith the financial report of the Company and its controlled entities ("the Group") for the half-year ended 31 December 2019 in order to comply with the provisions of the *Corporations Act 2001*. The directors' report as follows.

Directors

The directors in office during or since the end of the half-year are:

- James Douglas (Chair)
- Jake Dingle (MD/CEO)
- Bruce Griffiths
- Lucia Cade
- Dale McKee
- Mark Bernhard
- Peter Lewinsky

The above named directors held office during and since the end of the half-year.

Results and Review of Operations

Carbon Revolution is an advanced manufacturing company that designs, manufactures and markets single piece carbon fibre wheels. These wheels have potential application across a broad range of transportation industries including automotive, aerospace and industrial use. Carbon Revolution has prioritised the global automotive new vehicle wheel market for initial commercialisation of the technology and primarily generates revenue through the sale of wheels to global Original Equipment Manufacturers ("OEMs").

In November the company completed its Initial Public Offering ("IPO"), which raised \$90.1 million (including a primary raise of \$30 million and a secondary sell-down of \$60.1 million). The listing triggered the conversion of convertible notes into equity shares and resulted in a revaluation loss of \$48.4 million as well as the issue of anti-dilution shares resulting in a loss of \$35.8 million.

The Group incurred a net loss after tax of \$98.6, however excluding the IPO adjustments described above, capital raising transaction costs and borrowing costs, the group incurred a net loss after tax of for the half-year of \$8.6 million compared with \$9.4 million for the prior comparative period ("pcp"). The 243% growth in revenue from \$5.9 million to \$20.1 million was accompanied by an improvement in unit margins as the business drives efficiencies towards achieving sustainable profitability. Administration expenses are almost unchanged on the pcp, representing a strong level of fixed cost control against the substantial increase in production volume.

There has been a significant increase in research and development and an increase in the expected R&D tax incentive refund in relation to the prior financial year. The Group is intending to continue to invest strongly in research and development required to improve the product technology, material systems and to bring its production processes to full industrialisation.

There were operating net cash outflows of \$16.1 million for the six months ended 31 December 2019, which were in line with forecast apart from the timing of the receipt of the R&D tax incentive refund which is now expected in the second half of the financial year.

Over the six months, the workforce has grown by 178 or 61% to 470 team members as the business expands its production capacity. The investment in working capital is as planned and required to support rapidly expanding production volumes.

No dividends were paid or declared since the commencement of the half-year and the directors do not recommend the declaration of a dividend.

During the half-year the company formed an alliance with Mitsui Trading Co in September 2019. The alliance contemplates Mitsui and Carbon Revolution exploring opportunities of mutual benefit.

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

Auditor's Independence Declaration

The auditor's independence declaration is included on page 5 of the half-year report.

Directors' Report

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 dated 24 March 2016. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors pursuant to section 306(3) of the *Corporations Act 2001*.



James Douglas

Chair

Melbourne, 19 February 2020



Jake Dingle

Managing Director

Melbourne, 19 February 2020

The Board of Directors
Carbon Revolution Limited
75 Pigdons Road
Deakin University
WAURN PONDS VIC 3216

19 February 2020

Dear Board Members

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 review of the financial statements of Carbon Revolution Limited for the half year ended 31 December 2019, I declare that 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Stephen Roche
Partner
Chartered Accountants

Condensed consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2019

| | Note | Half-year ended 31 December 2019 \$'000 | Half-year ended 31 December 2018 \$'000 |
|---|----------|---|---|
| Sale of wheels | | 18,375 | 5,531 |
| Engineering services | | 1,127 | 321 |
| Sale of tooling | | 577 | - |
| Revenue | 2 | 20,079 | 5,852 |
| Cost of goods sold | | (24,643) | (10,975) |
| Gross margin | | (4,564) | (5,123) |
| Other income | 3 | 5,180 | 2,858 |
| Operational expenses | | (743) | 121 |
| Research and development | | (2,967) | (2,164) |
| Administrative expenses | | (4,432) | (4,318) |
| Marketing expenses | | (1,072) | (811) |
| Capital raising transaction costs | | (1,311) | - |
| Borrowing costs | 8 | (4,529) | (701) |
| Anti-dilutive shares issued on IPO | 4 | (35,801) | - |
| Gain/(loss) on revaluation of financial instruments | 8 | (48,387) | - |
| Loss before income tax expense | | (98,626) | (10,138) |
| Income tax expense | | - | - |
| Loss for the year after income tax | | (98,626) | (10,138) |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Foreign currency translation differences - foreign operations | | (35) | (59) |
| Other comprehensive income | | (35) | (59) |
| Total comprehensive loss for the year, net of tax | | (98,661) | (10,197) |
| Earnings per share | | | |
| Basic | 5 | (\$1.55) | (\$0.20) |
| Diluted | 5 | (\$1.55) | (\$0.20) |

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

Condensed consolidated statement of financial position

For the half-year ended 31 December 2019

| | Note | 31 December 2019 \$'000 | 30 June 2019 \$'000 |
|--|------|-------------------------------|---------------------------|
| Current assets | | | |
| Cash and cash equivalents | | 39,916 | 45,843 |
| Receivables | | 14,133 | 9,031 |
| Inventories | 6 | 12,874 | 9,670 |
| Other current assets | | 934 | 321 |
| Total current assets | | 67,857 | 64,865 |
| Non-current assets | | | |
| Property, plant and equipment | | 35,677 | 31,536 |
| Intangible assets | 7 | 11,058 | 7,886 |
| Right-of-use assets | 1.2 | 9,652 | - |
| Total non-current assets | | 56,387 | 39,422 |
| Total assets | | 124,244 | 104,287 |
| Current liabilities | | | |
| Payables | | 12,124 | 11,695 |
| Borrowings | 8 | - | 74,032 |
| Lease liability | 1.2 | 616 | - |
| Deferred income | | 551 | 608 |
| Provisions | | 2,463 | 2,521 |
| Total current liabilities | | 15,754 | 88,856 |
| Non-current liabilities | | | |
| Borrowings | 8 | 18,500 | 25,500 |
| Lease liability | 1.2 | 9,220 | - |
| Deferred income | | 3,397 | 3,160 |
| Provisions | | 433 | 180 |
| Total non-current liabilities | | 31,550 | 28,840 |
| Total liabilities | | 47,304 | 117,696 |
| Net (liabilities) / assets | | 76,940 | (13,409) |
| (Deficiency in equity) / equity | | | |
| Contributed equity | 4 | 265,249 | 75,897 |
| Reserves | | (489) | (477) |
| Accumulated losses | | (187,820) | (88,829) |
| Total (deficiency in equity) / equity | | 76,940 | (13,409) |

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

Condensed consolidated Statement of Changes in Equity

For the half-year ended 31 December 2019

| | Note | Contributed Equity | Share buyback reserve | Share based payment reserve | Accumulated Losses | Foreign Currency Translation Reserve | Total Equity |
|---|------|-----------------------|-----------------------------|--------------------------------------|-----------------------|---|-----------------|
| | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance as at 1 July 2018 | | 75,814 | (311) | - | (61,617) | (72) | 13,814 |
| Net loss after tax for the half year | | - | - | - | (10,137) | - | (10,137) |
| Other comprehensive loss for the half year | | - | - | - | - | (59) | (59) |
| Total comprehensive loss for the half year | | - | - | - | (10,137) | (59) | (10,196) |
| Transactions with owners in their capacity as owners: | | | | | | | |
| Share-based payments | | 83 | - | - | - | - | 83 |
| Total transactions with owners in their capacity as owners | | 83 | - | - | - | - | 83 |
| Balance as at 31 December 2018 | | 75,897 | (311) | - | (71,754) | (131) | 3,701 |
| Balance as at 30 June 2019 | | 75,897 | (311) | - | (88,829) | (166) | (13,409) |
| Change in accounting policy | 1.2 | | | | (365) | | (365) |
| Restated total equity at 1 July 2019 | | 75,897 | (311) | - | (89,194) | (166) | (13,774) |
| Net loss after tax for the half year | | - | - | - | (98,626) | - | (98,626) |
| Other comprehensive loss for the half year | | - | - | - | - | (35) | (35) |
| Total comprehensive loss for the half year | | - | - | - | (98,626) | (35) | (98,661) |
| Transactions with owners in their capacity as owners | | | | | | | |
| Issue of share capital | 4 | 30,000 | - | - | - | - | 30,000 |
| Share-based payments | 4 | 807 | - | 23 | - | - | 830 |
| Share issue costs | 4 | (2,690) | - | - | - | - | (2,690) |
| Issue of ordinary shares on conversion of convertible notes | 4,8 | 125,434 | - | - | - | - | 125,434 |
| Anti-dilutive shares issued on IPO | | 35,801 | - | - | - | - | 35,801 |
| Total transactions with owners in their capacity as owners | | 189,352 | - | 23 | - | - | 189,375 |
| Balance as at 31 December 2019 | | 265,249 | (311) | 23 | (187,820) | (201) | 76,940 |

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

Condensed consolidated statement of cash flows

For the half-year ended 31 December 2019

| | Note | Half-year ended 31 December 2019 \$'000 | Half-year ended 31 December 2018 \$'000 |
|---|------|--|--|
| Cash flow from operating activities | | | |
| Receipts from customers | | 17,599 | 6,186 |
| Receipt of grants and research and development incentives | | 262 | 3,299 |
| Payments to suppliers and employees | | (32,997) | (12,727) |
| Interest received | | 283 | 96 |
| Borrowing costs | | (647) | (695) |
| Net cash used in operating activities | | (15,500) | (3,841) |
| Cash flow from investing activities | | | |
| Payments for property, plant and equipment | | (6,406) | (7,803) |
| Payments for intangible assets | 7 | (4,031) | (3,527) |
| Net cash used in investing activities | | (10,437) | (11,330) |
| Cash flow from financing activities | | | |
| Capital raising transaction costs | | (4,672) | - |
| Proceeds from/ (payment of) third party borrowings | 8 | (5,000) | 154 |
| Proceeds from share issue | 4 | 30,000 | - |
| Repayment of lease liability | | (318) | - |
| Net cash provided by financing activities | | 20,010 | 154 |
| Net increase / (decrease) in cash held | | (5,927) | (15,017) |
| Cash at beginning of financial year | | 45,843 | 19,179 |
| Cash at end of financial year | | 39,916 | 4,162 |

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

Notes to the condensed consolidated financial statements

For the half-year ended 31 December 2019

Note 1: Summary of significant accounting policies

This half-year financial report represents the consolidated results of Carbon Revolution Limited ("the Company") and its controlled entities ("the Group"). The half-year financial report comprises general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

1.1. Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is an entity of the kind referred to in ASIC Corporations Instrument 2016/191, dated 24 March 2016. In accordance with that Corporations Instrument, amounts in the directors' report and the half-year report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2019 annual financial report for the financial year ended 30 June 2019, except for the accounting policy on leases described below which has changed as a result of the adoption of AASB 16 *Leases* ("AASB 16"). The accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

1.2. New accounting standards and interpretations

In the current reporting period, the Group has changed its accounting policies and made adjustments as a result of adopting AASB 16. The Group has adopted the new standard retrospectively from 1 July 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The Group has elected to measure the carrying amounts of the right of use assets as though the standard had applied from the commencement date of the leases. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The impact of the adoption of the leasing standard and the new accounting policy is disclosed below.

Impact of change in accounting policy

AASB 16 supersedes AASB 117 *Leases* ("AASB 117"). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options, and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Notes to the condensed consolidated financial statements

For the half-year ended 31 December 2019

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

The Group applies AASB 136 *Impairment of Assets* to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy (as outlined in the financial report for the annual reporting period). There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The Group has elected to apply the recognition exemption for leases of low-value assets or short-term leases including IT equipment and small items of office furniture.

Impact on financial statements

On transition to AASB 16, the Group has recognised \$9.1 million of right-of-use assets, \$9.3 million of lease liabilities and \$0.4 million in retained earnings. When measuring lease liabilities, lease payments are discounted using the incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 5%. Earnings per share decreased by 0.001c per share for the six months to 31 December 2019 as a result of AASB 16 adoption.

| | 2019 \$'000 |
|---|----------------|
| Operating lease commitments disclosed as at 30 June 2019 | 8,329 |
| Extension option included | 2,436 |
| Discount using incremental borrowing rate at 1 July 2019 | (1,491) |
| Lease liability recognised as at 1 July 2019 | 9,274 |

| | 2019 \$'000 |
|------------------------------------|----------------|
| Lease liabilities | \$'000 |
| Balance at 1 July 2019 | 9,274 |
| Additions | 874 |
| Interest incurred | 254 |
| Payments on lease liability | (566) |
| Balance at 31 December 2019 | 9,836 |

Of which are:

| | |
|------------------------------------|--------------|
| Current lease liabilities | 616 |
| Non-current lease liabilities | 9,220 |
| Balance at 31 December 2019 | 9,836 |

Maturity analysis – contractual undiscounted cash flows as at 31 December 2019

| | 1 year or less \$'000 | >1 to 2 years \$'000 | >2 to 5 years \$'000 | Over 5 years \$'000 | Total \$'000 |
|-------------------|--------------------------|-------------------------|-------------------------|------------------------|-----------------|
| Lease liabilities | 1,146 | 1,301 | 2,621 | 8,367 | 13,435 |

This includes the five year extension option under the lease agreement with Deakin University.

Notes to the condensed consolidated financial statements

For the half-year ended 31 December 2019

The recognised right-of-use assets relate to the following types of assets:

| Right-of-use assets | Property \$'000 | Equipment \$'000 | Total \$'000 |
|-----------------------------|--------------------|---------------------|-----------------|
| Balance at 1 July 2019 | 9,103 | - | 9,103 |
| Addition | - | 911 | 911 |
| Depreciation charge | (316) | (46) | (362) |
| Balance at 31 December 2019 | 8,787 | 865 | 9,652 |

1.3. Standards and Interpretations issued not yet effective

At the date of authorisation of the consolidated financial statements, other Standards and Interpretations issued but not yet effective were listed below.

| Standard and Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|--|--|---|
| <i>AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB10 & AASB128], AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections</i> | 1 January 2022 | 30 June 2023 |
| <i>AASB 2018-6 Amendments to Australian Accounting Standards - Definition of a Business</i> | 1 January 2020 | 30 June 2021 |
| <i>AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material</i> | 1 January 2020 | 30 June 2021 |
| <i>AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework</i> | 1 January 2020 | 30 June 2021 |
| <i>AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform</i> | 1 January 2020 | 30 June 2021 |
| <i>AASB 2019-5 Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia</i> | 1 January 2020 | 30 June 2021 |

The Directors of the Group do not anticipate that the adoption of above amendments will have a material impact in future periods on the financial statements of the Group.

Notes to the condensed consolidated financial statements

For the half-year ended 31 December 2019

Note 2: Revenue and segment reporting

All revenue is recognised at a point in time.

Identification of reporting operating segments

The Group operates in one business segment, being the manufacture and sale of carbon fibre wheels predominantly for automotive applications. This single segment is based on the internal reports that are reviewed and used by the Chief Executive Officer, who is also the Chief Operating Decision Maker ('CODM'), in assessing performance and determining allocation of resources. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

Revenue and non-current assets by geography comprise:

| | 31 December 2019 \$'000 | 31 December 2018 \$'000 |
|---------------------------|-------------------------------|-------------------------------|
| Revenue | | |
| International | 20,079 | 5,852 |
| Domestic | - | - |
| | <u>20,079</u> | <u>5,852</u> |
| Non-current assets | | |
| International | - | - |
| Domestic | 56,387 | 39,422 |
| | <u>56,387</u> | <u>39,422</u> |

Note 3: Other income

| | 31 December 2019 \$'000 | 31 December 2018 \$'000 |
|----------------------------------|-------------------------------|-------------------------------|
| Government grants | 4,885 | 2,693 |
| Interest income | 250 | 96 |
| Unrealised foreign exchange gain | 10 | 69 |
| Other income | 35 | - |
| | <u>5,180</u> | <u>2,858</u> |

Note 4: Equity – issued capital

| | 31 December 2019 Ordinary shares | 30 June 2019 Ordinary shares | 31 December 2019 \$'000 | 30 June 2019 \$'000 |
|------------------------------|-------------------------------------|---------------------------------|----------------------------|------------------------|
| Ordinary shares – fully paid | <u>127,341,942</u> | <u>50,892,598</u> | <u>265,249</u> | <u>75,897</u> |

Movements in ordinary share capital

| | Date | Shares | Issue Price | \$'000 |
|----------------------|-------------------------|-------------------|-------------|---------------|
| Balance | 1 July 2018 | 50,869,000 | | 75,814 |
| Share-based payments | | 23,598 | | 83 |
| Balance | 31 December 2018 | 50,892,598 | | 75,897 |

Notes to the condensed consolidated financial statements

For the half-year ended 31 December 2019

| | Date | Shares | Issue Price | \$'000 |
|---|-------------------------|--------------------|-------------|----------------|
| Balance | 1 July 2019 | 50,892,598 | | 75,897 |
| Issue of Shares (IPO) | 29 November 2019 | 11,538,462 | \$2.60 | 30,000 |
| Share based payments | 29 November 2019 | 310,605 | \$2.60 | 807 |
| Issue of shares to Convertible Note Holders | 29 November 2019 | 48,243,689 | \$2.60 | 125,434 |
| Anti-dilutive shares issued on IPO | 29 November 2019 | 16,356,588 | * | 35,801 |
| Share issue transaction costs | | | | (2,690) |
| Balance | 31 December 2019 | 127,341,942 | | 265,249 |

* In December 2016 the Company raised capital and offered anti-dilution rights to the investors in that raising. The December 2016 raising was at a higher issue price than the discounted listing price at which convertible note holders received shares in the IPO pursuant to the convertible note agreements. On IPO shares were issued to participants in the December 2016 raising in accordance with the Anti-Dilution Deeds resulting in a valuation adjustment.

Note 5: Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

| | 31 December 2019 \$'000 | 31 December 2018 \$'000 |
|---|---------------------------------|---------------------------------|
| Earnings | | |
| Earnings for the purposes of basic earnings per share being loss for the year | (98,626) | (10,138) |
| Effect of dilutive potential ordinary shares | - | - |
| Earnings for the purposes of diluted earnings per share | (98,626) | (10,138) |
| | | |
| | 31 December 2019 No. '000 | 31 December 2018 No. '000 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 63,634 | 50,881 |
| Effect of dilutive potential ordinary shares | - | - |
| | 63,634 | 50,881 |

Note 6: Inventories

| | 31 December 2019 \$'000 | 30 June 2018 \$'000 |
|--|-------------------------------|---------------------------|
| Current | | |
| Raw materials | 6,797 | 5,954 |
| Work in progress | 7,381 | 5,092 |
| Finished goods | 1,324 | 723 |
| Consumables and spare parts | 1,231 | 877 |
| Provision for trial wheels, obsolescence and scrap | (3,859) | (2,976) |
| Inventories at the lower of cost and net realisable value | 12,874 | 9,670 |

Notes to the condensed consolidated financial statements

For the half-year ended 31 December 2019

Note 7: Intangible asset balances

| | Development costs \$'000 | Patents and trademarks \$'000 | Total \$'000 |
|---|-----------------------------|----------------------------------|-----------------|
| At 30 June 2019 | | | |
| Gross cost | 7,732 | 867 | 8,599 |
| Less accumulated amortisation | (468) | (245) | (713) |
| Net book amount | 7,264 | 622 | 7,886 |
| Half-year ended 31 December 2019 | | | |
| Opening net book amount | 7,264 | 622 | 7,886 |
| Additions | 4,009 | - | 4,009 |
| Amortisation | (804) | (33) | (837) |
| Closing net book amount | 10,469 | 589 | 11,058 |
| At 31 December 2019 | | | |
| Gross cost | 11,741 | 867 | 12,608 |
| Less accumulated amortisation | (1,272) | (278) | (1,550) |
| Net book amount | 10,469 | 589 | 11,058 |

During the first six months the group capitalised \$4.0 million in development costs. These costs relate mainly to the development costs necessary to bring OEM projects to market. This development is crucial for the company, as its business model is based on concurrently developing materials, products and processes with the aim of lower cost and higher volume industrialised production.

Note 8: Borrowings and other financial liabilities

| | 31 December 2019 \$'000 | 30 June 2019 \$'000 |
|---|-------------------------------|---------------------------|
| Current borrowings | | |
| <i>Unsecured</i> | | |
| Insurance premium funding | - | 41 |
| Convertible notes | - | 73,991 |
| | - | 74,032 |
| Non-current borrowings | | |
| <i>Unsecured</i> | | |
| Loan | 5,500 | 7,500 |
| Ronal loan facility | 13,000 | 18,000 |
| | 18,500 | 25,500 |
| Convertible notes | | \$'000 |
| Carrying amount at 1 July 2019 | | 73,991 |
| Interest expense accrued | | 3,056 |
| Loss on conversion recognised in profit or loss | | 48,387 |

Notes to the condensed consolidated financial statements

For the half-year ended 31 December 2019

| | |
|---|-----------|
| Issue of ordinary shares upon conversion in November 2019 | (125,434) |
| Balance at 31 December 2019 | - |

On listing of the group on the Australian Stock Exchange on 29th November 2019, the convertible notes converted into ordinary shares. In accordance with the terms of the convertible note agreement, the shares were issued at a discount resulting in a loss on conversion of \$48.4 million.

The Borrowing costs of \$4.5 million includes \$3.1 million PIK (Payment in Kind) interest relating to the convertible notes converted into ordinary shares on IPO, and \$1m interest on the Ronal loan facility. A \$5.0 million repayment on the Ronal loan facility occurred in the last month of the half year.

Note 9: Subsequent Events

There have been no events subsequent to 31 December 2019.

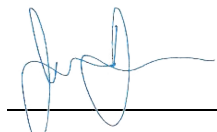
Directors' Declaration

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

In the opinion of the directors:

- a) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- b) the attached financial statements and notes thereto set out on pages 6 to 16 are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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



James Douglas

Chair

Geelong

19 February 2020

Independent Auditor's Review Report to the members of Carbon Revolution Limited

We have reviewed the accompanying half-year financial report of Carbon Revolution Limited (the "Company") and its subsidiaries ("the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2019, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and the Directors' declaration of the Group.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Carbon Revolution Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of Carbon Revolution Limited, would be in the same terms if given to the Directors as at the time of this auditor's review report.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Carbon Revolution Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.


DELOITTE TOUCHE TOHMATSU



Stephen Roche
Partner
Chartered Accountants
Melbourne, 19 February 2020