

**Carbon Revolution Limited**

Geelong Technology Precinct  
75 Pigdons Road  
Waurin Ponds, 3216  
Australia

ABN: 96 128 274 653



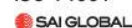
Automotive  
TS 16949



Quality  
ISO 9001



Environment  
ISO 14001



Tuesday 25 August 2020

## **Carbon Revolution (ASX code: CBR) APPENDIX 4E AND FY20 ANNUAL REPORT**

In accordance with ASX Listing Rules, please see attached Carbon Revolution's Appendix 4E and Annual Report for the year ended 30 June 2020.

The associated year end reporting documents will be provided separately as follows:

- Carbon Revolution FY20 Results Release
- Carbon Revolution FY20 Investor Presentation
- FY20 Corporate Governance Statement and
- Appendix 4G.

### **FY20 RESULTS - INVESTOR AND ANALYST BRIEFING**

A briefing will be held for investors and analysts at 9.30am (AEST) today.

To pre-register for this event please use the following link:

[https://carbonrev.zoom.us/webinar/register/WN\\_pRnIMM8vS7iOOQLdzZX2rw](https://carbonrev.zoom.us/webinar/register/WN_pRnIMM8vS7iOOQLdzZX2rw)

Registered participants will receive a calendar invite and meeting link (and dial in number if required) which is to be used when connecting into the call.

A recording of the conference call will be made available on the Carbon Revolution Investor Centre website: <https://investors.carbonrev.com/InvestorCentre/?page=presentations-and-webcasts>

**This announcement and associated documents are authorised for release by the Board of Directors of Carbon Revolution Limited**

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## Appendix 4E

Preliminary financial report for the year ended 30 June 2020 as required by ASX listing rule 4.3A

For the year ended 30 June 2020

(previous corresponding period (PCP) being the year ended 30 June 2019)

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

#### Statutory results

|                                                                         |      | %<br>Change<br>from<br>PCP | \$M   |
|-------------------------------------------------------------------------|------|----------------------------|-------|
| Total revenue from ordinary activities                                  | Up   | 158% to                    | 39    |
| Profit after tax from ordinary activities (including significant items) | Down | 319% to                    | (114) |
| Underlying profit after tax (excluding significant items)               | Up   | 3% to                      | (27)  |

#### Dividend Information

No dividend was paid or declared for year ended 30 June 2020

#### Other information

| Year ended 30 June               | 2020<br>\$ | 2019<br>\$ |
|----------------------------------|------------|------------|
| Net tangible assets per security | 2.06       | (2.39)     |

Net tangible assets for 30 June 2020 include the right-of-use assets recognised under AASB 16 Leases.

Additional information supporting the Appendix 4E disclosure requirements can be found in the 2020 Annual Report which contains the Directors' Report and the 30 June 2020 Financial Statements and accompanying notes.

The report is based on the consolidated financial statements for the year ended 30 June 2020 which have been audited by Deloitte.

# 2020 ANNUAL REPORT



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## GLOSSARY

| Our term                   | What it means                                                                                                                                                                |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| OEM                        | Original equipment vehicle manufacturer, eg Ford, Ferrari. The OEMs are our customers and the owners of their vehicles are their customers                                   |
| Programs or wheel programs | Commercial arrangements with OEMs to supply wheels. Arrangements start with engineering validation and end with a contract to supply a specific wheel(s) at an agreed price. |
|                            | Carbon Revolution has a range of wheel programs with existing clients and is pursuing new programs with both those clients (for new car models) and new OEMs.                |



SECTION 1 —  
KEY  
ACHIEVEMENTS  
FOR 2019-20

# Key achievements for 2019-20

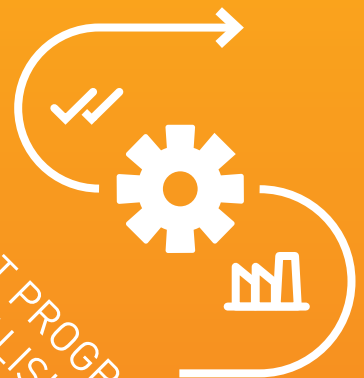
Awarded 3 new vehicle programs and in engineering trials with a new Asian OEM



\$38.9m revenue  
Growth of 158%

## STRONG GROWTH AND SUSTAINED CUSTOMER DEMAND

Reaching an annualised moulding in the fourth quarter of 30,000 wheels per annum

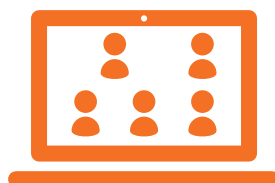


## SIGNIFICANT PROGRESS ON INDUSTRIALISING OUR PRODUCTION PROCESSES

## POSITIVE TEAM ENGAGEMENT DESPITE THE IMPACT OF COVID-19

## INDUSTRY LEADING SAFETY OUTCOMES WITH 50% IMPROVEMENT IN LTIFR<sup>1</sup> AND 44% IMPROVEMENT IN MTIFR DURING PERIOD OF RAPID GROWTH IN SALES AND HEADCOUNT

<sup>1</sup>. See LTIFR and MTIFR descriptions in table 8 in the Remuneration Report



## THE COMPANY COMPLETED A SUCCESSFUL INITIAL PUBLIC OFFERING (IPO) ON THE ASX ON 29 NOVEMBER 2019



## SECTION 2 / LETTER FROM THE CHAIR AND THE CEO

### Dear Shareholder

On behalf of the Directors of Carbon Revolution Limited ("Carbon Revolution" or the "Company" or the "Group"), we are pleased to present our annual report for the financial year ending 30 June 2020 (FY20).

Carbon Revolution is an Australian technology company manufacturing advanced carbon fibre wheels. Our wheels are materially lighter than steel and aluminium alternatives and as a result deliver significant efficiency gains. These efficiency gains translate into enhanced performance and increased fuel efficiency or range enhancement for electric vehicles. Our wheels are currently available on a number of cars made by Ford, Ferrari and Renault and we have contracts to supply wheels to a number of other car makers for future models. We are also working with the Australian Defence Force on the design of wheels for the CH-47 (Chinook) Helicopter as part of our expansion into the aerospace sector.

The past year has been a very significant one for the Company. We made good progress in the industrialisation of our production processes, delivered strong growth and completed a successful listing on the Australian Securities Exchange (ASX). However, we also faced significant challenges. In particular, issues associated with the COVID-19 pandemic materially impacted our business, affecting our customers, our supply chains, our production and ultimately our ability to deliver on our prospectus forecasts. We are disappointed that we were not able to deliver on our expectations for this year, but we also believe that these impacts are relatively short-term in nature and that our long-term growth prospects are unchanged.

The Company completed a successful Initial Public Offering (IPO) on the ASX on 29 November 2019. On behalf of your Board of Directors, we would like to express our appreciation for the support shown by our long-term shareholders up to the listing and by all shareholders since the IPO. We would like to particularly express our thanks for the strong support we have received over time from the State Government of Victoria, Ronal AG and Deakin University.

In our prospectus we forecast production of 22,821 wheels and revenue of \$62.2m for FY20 and that we would become EBITDA positive in Q4 of that year. Unfortunately, the second half of the financial year was heavily impacted by the global COVID-19 pandemic. Our two largest customers, Ferrari and Ford, shut down manufacturing during this time. The pandemic impacted our global supply chain and affected our ability to procure key raw materials. We also took steps to safeguard our team at our facility in Geelong, Victoria which affected production.

As a result of these issues and uncertainty created by the pandemic, we withdrew our prospectus forecasts for FY20 on 25 March 2020. Further, we took steps to ensure the company was in as strong a financial position as possible to deal with uncertainty by raising \$25m through an institutional placement in March 2020 and a further \$2.7m via a share purchase plan.

The operational focus for the business in FY20 was to increase production capacity, particularly the capacity of the moulding processes. It is pleasing to report that monthly annualised moulding output increased to 30,000 wheels per annum by the June quarter. However, as further outlined in the Operating and Financial Review, as a result of challenges in finishing wheels to the required aesthetic quality, compounded by the constraints that we had to impose due to the pandemic, our finishing rates were lower than our moulding rates. This resulted in lower sales and higher work-in-progress inventory levels than planned.

The issue of finish quality, particularly as we industrialise our process to increase rate and lower costs, has been a major focus for our team. During the year we completed development work on a new technology that addresses these challenges. This new technology, known as 'fascia', will address the majority of our quality issues and provide a materially enhanced aesthetic finish to our wheels. In addition, it will reduce costs and allow us to sell through the excess inventory carried over from FY20.

This fascia technology is being implemented with customers now and the first commercial sales of wheels featuring it will occur through September. It will be progressively introduced over most of our existing programs and all future programs.

We have applied for a patent for this technology which will add to the valuable intellectual property portfolio developed and owned by the Company. We currently have 43 granted patents in eight patent families, with further patents pending in an additional four patent families. Research and development will continue to be a focus for us and is critical to the success of the Company. We are proud to have developed this technology here in Geelong.

Customer demand for our wheels has continued to be very strong – both from our original equipment vehicle manufacturer (OEM) partners and their customers. We are constrained by confidentiality arrangements from disclosing details of existing and new contracts. However, during FY21 we expect to enter into new supply arrangements with existing customers for new vehicle programs as well as new customers, in Europe, North America and Asia. We expect that through the year a number of new cars will be launched with our wheels and at that time we will look to update our investors on those programs, when we are able to. At present we have 11 programs for specific vehicles with five OEM partners and a further program in engineering validation stage with a sixth OEM based in Asia.

The Company's FY20 revenue of \$38.9m exceeded the prior year by 158%. Carbon Revolution reported a loss after tax of \$114.0m (FY19: \$27.2m). The FY20 loss after tax includes \$87.2m of non-cash items associated with the IPO. Looking forward to FY21, we expect strong sales growth and continued progress with our industrialisation strategy.

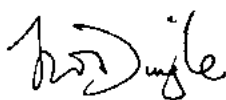
On behalf of the Board, we would like to thank each and every member of the Carbon Revolution team for their considerable efforts and achievements throughout the financial year, particularly in the face of the unusual challenges of COVID-19. Carbon Revolution builds a unique and highly sophisticated product, and it has a unique team and culture which we are confident will deliver long-term, profitable growth for our shareholders.

We would also like to thank the Non-Executive Directors, our customers, suppliers, partners, financiers and advisors for their contribution and collaboration through the year.

Finally, thank you to our fellow Carbon Revolution shareholders who have recognised the strategic growth opportunities ahead for this company and invested to help us execute on our plans. We are excited about the year ahead and look forward to keeping you updated on our progress.



**James Douglas**  
Chair



**Jake Dingle**  
CEO and Managing Director



**SECTION 3**—  
OPERATING  
AND  
FINANCIAL  
REVIEW

## ABOUT CARBON REVOLUTION

Carbon Revolution was established in 2007 and is an advanced manufacturing company that designs, manufactures and markets single piece carbon fibre wheels. We are the only company globally to have successfully developed and manufactured single piece carbon fibre automotive wheels to original equipment vehicle manufacturers (OEM) quality standards with commercial adoption across several major OEM's vehicle platforms.

Carbon Revolution's principal operations, which include its corporate office and manufacturing facilities, are located in Geelong, approximately 75 kilometres from Melbourne, Australia. Carbon Revolution has a number of permanent and contract personnel in North America and Europe to service current and prospective customers. The Geelong facility is a purpose-built facility which was opened in 2014 with an initial size of 3,000m<sup>2</sup>. Since commencing production for its first OEM program for Ford in 2015, the Company has progressively increased production capacity in response to increasing demand from customers.

Carbon Revolution completed a manufacturing facility expansion in October 2018, increasing the building footprint from 3,000m<sup>2</sup> to 10,000m<sup>2</sup>. This will allow the Company to materially increase production capacity over the coming years. The Geelong facility is quality accredited to international automotive supply standard IATF16949.

## INITIAL PUBLIC OFFERING

In November 2019 the company completed its Initial Public Offering (IPO), which raised \$30.0m in new capital to invest in manufacturing equipment to reduce unit costs of production and increase production capacity at the Geelong facility as well as fund continued research and development (R&D) activities and pre-pay \$5m of the Ronal AG loan. The IPO included a secondary sell-down facility of \$60.1m allowing existing shareholders the opportunity to realise part of their investment in Carbon Revolution.

The listing triggered both the conversion of convertible notes into equity shares resulting in a revaluation loss of \$51.4m and the issue of anti-dilution shares to investors in a 2016 capital raising, resulting in a loss of \$35.8m for accounting purposes.

## BUSINESS MODEL AND STRATEGIC PRIORITIES

Carbon Revolution primarily generates revenue through the sale of carbon fibre wheels to global OEMs. The Company also generates revenue via the provision of associated engineering services and customer-owned tooling related to those wheel sales to global OEMs. The sale of Carbon Revolution's wheels takes place under supply contracts with OEMs.

The business model is based on concurrently developing materials, products and processes with the aim of lower cost and higher volume industrialised production. The company has prioritised the automotive new vehicle wheel market, where its lightweight wheels deliver substantial performance and efficiency benefits. There are a number of strategic growth opportunities available to Carbon Revolution, in addition to the scaling up of its Geelong manufacturing facility to materially increase production capacity. Carbon Revolution also aims to leverage its technology into adjacent industries, such as the aerospace and transportation sectors.

## OPERATING AND FINANCIAL REVIEW (CONT)

Carbon Revolution's strategy and competitive advantage are derived from:

- Leadership in carbon fibre wheel technology
- World class customer excellence
- Industrialisation, developing strong and sustainable earnings.

The key stages of Carbon Revolution's industrialisation strategy are:



## RESULTS OF OPERATIONS

### Carbon Revolution's wheel program portfolio

The Company is now nominated for, or has been awarded, 11 contracts programs with five global OEMs. Six of these programs have been publicly announced by the relevant OEM and are in production. The Company is prevented by confidentiality obligations from detailing these arrangements. The Company is also working with an Asian OEM on the engineering and development of a new program. The Company's wheel programs cover most vehicle segments, including wheels for several performance sedans, a performance hatch, a SUV and a hypercar being brought to market by a major Asian OEM. The status of the company's programs is:

## Stage of Program Lifecycle

## Number of Programs

|                                                      |                         |
|------------------------------------------------------|-------------------------|
| Awarded programs in production during FY20           | 6                       |
| Programs in development                              | Awarded                 |
|                                                      | Under engineering order |
| Programs entering run out during FY21                | 3                       |
| Awarded programs planned to enter production in FY21 | 2                       |

Programs vary in size and length and run out over different periods of time. Taking into account the combination of new programs, growth from existing programs and the reduction from programs in run out, the company expects to deliver strong sales growth in FY21.

The awarded programs in production during FY20 are:

|                                                                                     |                                                                                                                                                                                   |                                                                                      |
|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
|   | <b>Ford Mustang GT350R (2015)</b><br><b>6.9kg WEIGHT REDUCTION</b> per wheel Sports Car of the Year <sup>1</sup>   <b>45%<sup>2</sup> WEIGHT SAVING</b> over aluminium equivalent |   |
|  | <b>Ford GT (2016)</b><br>Carbon Revolution's <b>FIRST EXPOSED WEAVE</b> OEM product   <b>22%<sup>3,4</sup> WEIGHT SAVING</b> over aluminium equivalent                            |  |
|  | <b>Ferrari 488 Pista (2018)</b><br>Next generation <b>PREFORM TECHNOLOGY AND RESIN SYSTEM</b>   <b>40%<sup>2</sup> WEIGHT SAVING</b> over aluminium equivalent                    |  |
|  | <b>Ford Mustang GT500 (2019)</b><br>First industrialised wheel <b>MOULDED UNDER HIGH PRESSURE</b>   <b>41%<sup>4</sup> WEIGHT SAVING</b> over aluminium equivalent                |  |
|  | <b>Renault Megane Trophy RS (2019)</b><br><b>FIRST FRONT WHEEL DRIVE</b> hot hatch application   <b>23%<sup>3,4</sup> WEIGHT SAVING</b> over aluminium equivalent                 |  |
|  | <b>Ferrari SF90 Stradale (2019)</b><br><b>FIRST PLUG-IN HYBRID ELECTRIC</b> vehicle application   <b>32%<sup>4</sup> WEIGHT SAVING</b> over aluminium equivalent                  |  |

1 Popular Mechanics Sports Car of the Year for 2015.

2 As publicly stated by OEM.

3 Constrained by styling requirements and compared to lightweight forged aluminium wheel.

4 Based on calculations from the company which compared the weight of the benchmark aluminium wheel to the relevant Carbon Revolution wheel.

## OPERATING AND FINANCIAL REVIEW (CONT)

### MANUFACTURING AND INDUSTRIALISATION PROGRAM

The business is now well progressed in its industrialisation phase where the focus has been on increasing the scale of manufacturing and the first phase of process automation. Annualised wheel moulding rate was increased from approximately 12,000 to over 30,000 per annum in FY20 through the installation of new cutting, preforming, rim forming and rim close out machines, robotic machine tending and surface preparation machines, thermal barrier coating capacity and new high-pressure moulding stations.

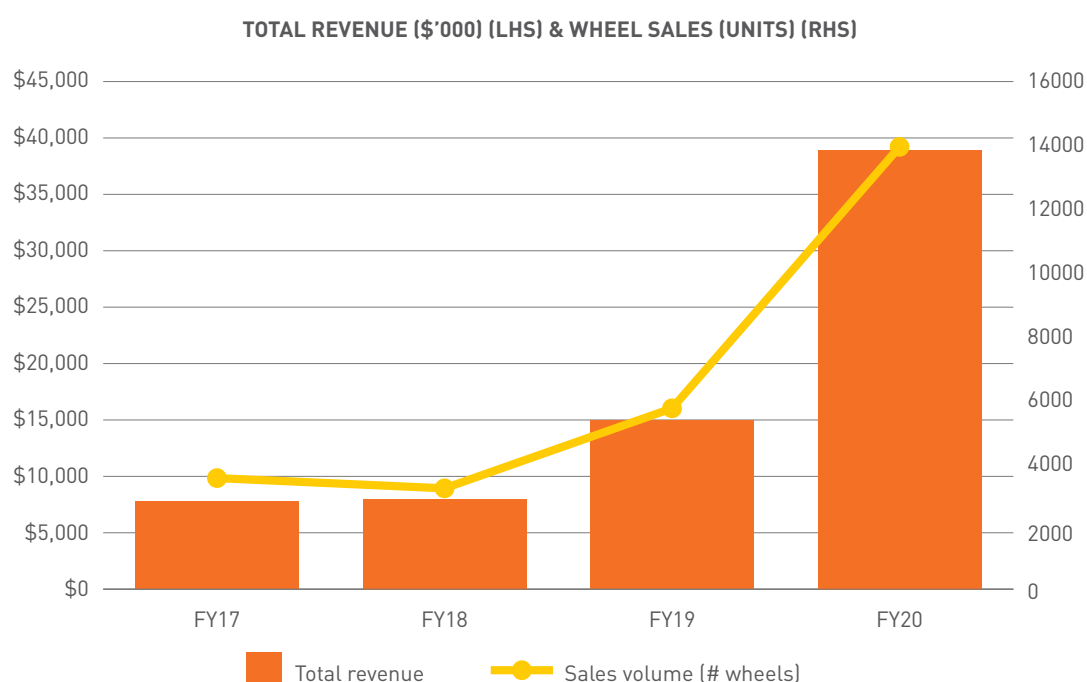
Unfortunately, the sales ramp-up was impacted by operational changes necessary due to COVID-19 and by wheel aesthetic surface finish issues. COVID-19 significantly impacted the business during the second half of the year in the following ways:

- Recruitment associated with the volume ramp was frozen in March and shift separation was introduced. Both measures limited wheel production from March to June;
- Indirect staff were all required to work from home as much as possible impacting a number of activities that were in place to support and improve manufacturing activities;
- Global supply chains were interrupted with some raw material manufacturers in Europe and the USA being shut for extended periods. To reduce the risk of stock outs, the business increased raw materials stock levels which increased working capital in the last quarter and incurred significantly elevated freight costs during this period;
- Both volume and price impacts significantly increased the cost of consumables from March (particularly face masks, gloves, hand sanitiser and cleaning products). Price levels only started to settle to more normal levels in June;
- Some OEM customers have delayed the introduction of some programs, however, all customers are currently in production and demand for our technology remains strong.

The wheel finishing issues increased processing time and led to both reduced sales and increased inventory levels throughout the downstream finishing processes (the processes after moulding). In response to this the business used the global slowdown to fast track the development and implementation of a new technology (known as 'fascia') that improves finished wheel aesthetic quality. The new fascia technology involves applying the surface fabric at the end of the moulding process rather than the beginning which dramatically improves the surface finish of the wheel. This new technology will drive significant reduction in labour cost per wheel and reduction in work in process along with a higher immediate conversion rate of moulded wheels to sold wheels.

## REVENUE GROWTH

It is pleasing that the company grew revenue by 158% in FY20, a record year for sales during what was a challenging global environment in the second half of the year.



## WHEEL SALES

During FY20 revenue of \$36.9m was derived from wheel sales, an increase of 167% from FY19. This significant increase in revenue was driven by strong underlying demand across production programs including the full year impact of the Ferrari 488 Pista program and from new programs entering production in FY20, including the Ford Mustang GT500, Ferrari SF90 Stradale and Renault Megane R.S. Trophy-R programs. These new programs represented 38% of wheel sales revenue in FY20 and will form a greater share of revenue in FY21 as they deliver a full year of wheel sales.

While underlying demand for these programs was strong during FY20, the ramp-up in wheel sales was materially impacted by COVID-19 from March. There was significant uncertainty around some customers' ability to receive wheels in March and April as a result of COVID-19 impacts and uncertainty around the timing of their resumption of vehicle production post lock down. The business has used the COVID-19 related volume slowdown to move to sea freight for some customers, providing order stabilisation and lower cost shipping. There were an additional 1,344 wheels shipped during the year that will not be recognised as revenue (\$4.5m) until FY21.

## OPERATING AND FINANCIAL REVIEW (CONT)

### ENGINEERING SERVICES AND TOOLING REVENUE

Revenue from engineering services reflects the OEM contribution to wheel design and validation activities undertaken prior to the commencement of production to assist Carbon Revolution achieve the specifications unique to each OEM vehicle program. This revenue stream is driven by the number of new products under development. Revenue from tooling reflects the sale of certain OEM tooling designed to the specification of each OEM program.

Revenue from Engineering Services and Tooling increased by \$0.8m to \$2.1m. This increase reflected the activity being undertaken with ongoing development and launch activities related to programs that entered production during FY20 and new OEM programs.

### TALENT AND ENGAGEMENT

Our employees are a key factor in the growth and success of the business. Despite the COVID-19 freeze on hiring associated with the volume ramp, the business grew significantly throughout the year, with over 220 people hired in 2020, up 46% on FY19. Total headcount increased by 327 to peak at over 600 by April 2020 as the company continued its growth trajectory, notwithstanding the hiring freeze undertaken by the company in mitigating the risk associated with COVID-19. The team demonstrated their initiative and resilience during this period to continue with both production and development activities during the disruptions arising from the COVID-19 virus. Unfortunately, due to a COVID-19 related reduction in demand in the first half of FY21, in July and early August the company made efficiency and operational changes including workforce reductions and shift optimisation.

The engagement of the Carbon Revolution team has remained very strong through FY20. The employee engagement score measure was 72 which is consistent with 73 scored in FY19. The result is pleasing given the measure was taken late in the year when the business was challenged with growing turnover while dealing with restrictions related to COVID-19.

During the year, the business introduced CARE, which is our Mental Health Model designed specifically for the Carbon Revolution team. As part of the program, the business has appointed a part time Team Psychiatrist and launched the Bonfyre App which is used to actively engage with all staff. The Bonfyre App is a great tool to promote awareness and education around mental health and build a place where the team can feel safe, supported and connected.

## FINANCIAL REVIEW

### Historical consolidated performance

|                                              | 2020<br>\$m    | 2019<br>\$m   | Change<br>%  |
|----------------------------------------------|----------------|---------------|--------------|
| Sale of wheels                               | 36.8           | 13.8          | 167%         |
| Engineering services & tooling               | 2.1            | 1.3           | 62%          |
| <b>Total revenue</b>                         | <b>38.9</b>    | <b>15.1</b>   | <b>158%</b>  |
| Cost of goods sold                           | (50.5)         | (22.5)        | 124%         |
| <b>Gross loss</b>                            | <b>(11.6)</b>  | <b>(7.4)</b>  | <b>57%</b>   |
| % of total revenue                           | (30%)          | (49%)         | 19 pts       |
| Selling, general and administration expenses | (13.0)         | (11.1)        | 17%          |
| Research and development expenses            | (4.8)          | (4.5)         | 7%           |
| Capital raising transaction costs            | (1.4)          | (7.7)         | (82%)        |
| <b>Total expenses</b>                        | <b>(19.2)</b>  | <b>(23.3)</b> | <b>(18%)</b> |
| % of total revenue                           | 49%            | 154%          | 105 pts      |
| Other income                                 | 6.2            | 5.0           | 24%          |
| Gain on revaluation of financial instruments | –              | 0.5           |              |
| <b>EBIT before losses related to the IPO</b> | <b>(24.6)</b>  | <b>(25.2)</b> | <b>2%</b>    |
| Anti-dilutive shares issued on IPO           | (35.8)         | –             | –            |
| Conversion of financial instruments on IPO   | (51.4)         | –             | –            |
| EBIT                                         | (111.8)        | (25.2)        | 344%         |
| Net interest expense                         | (2.2)          | (2.0)         | 10%          |
| <b>Loss before tax</b>                       | <b>(114.0)</b> | <b>(27.2)</b> | <b>319%</b>  |
| Income tax                                   | –              | –             |              |
| <b>Loss after tax</b>                        | <b>(114.0)</b> | <b>(27.2)</b> | <b>319%</b>  |
| <b>EBITDA adjusted<sup>1</sup></b>           | <b>(17.1)</b>  | <b>(22.4)</b> | <b>(24%)</b> |
| % of total revenue                           | (44%)          | (148%)        | 104 pts      |

Individual items of income and expense are consistent with the statutory information.

1 EBITDA adjusted is earnings before interest, tax, depreciation and amortisation and before the losses from anti-dilutive shares issued on IPO and loss on conversion of financial instruments

## OPERATING AND FINANCIAL REVIEW (CONT)

Carbon Revolution reported a loss after tax of \$114.0m (FY19: \$27.2m). The FY20 loss after tax includes \$87.2m of losses associated with the IPO from the conversion of convertible notes into equity shares resulting in a revaluation loss of \$51.4m and the issue of anti-dilution shares to investors in a 2016 capital raising resulting in a loss of \$35.8m.

**Sales revenue** increased by 158% to \$38.9m. Key items of note in these results include:

- Average price per wheel increased by 9% to \$2,643 due to changes in the sales mix and a weakening of the Australian dollar relative to the Euro;
- Sales from new programs contributed 38% of wheel sales revenue in FY20. These programs will deliver further growth in FY21 as they will be in production for a full year;
- Revenue from engineering services and tooling increased to \$2.1m in FY20 (FY19: \$1.3m), reflecting the work completed on new programs;
- The business has used the COVID-related volume slowdown to move to sea freight for some customers, providing order stabilisation and lower cost shipping. There were an additional 1,344 wheels shipped during the year that will not be recognised as revenue (\$4.5m) until FY21.

**Gross loss** increased to \$11.6 m from \$7.4m in FY19. This gross loss represented (30%) of revenue which was an improvement from (49%) in FY19.

This gross loss improvement was driven by a number of factors, including the following impacts on cost of goods sold:

- Improved price as a result of a change in sales mix and favourable foreign currency movements, in particular the weakening of the Australian dollar relative to the Euro;
- A higher proportion of wheels manufactured through more industrialised manufacturing processes;
- Improved recovery of manufacturing overheads arising from higher production volumes.

However, these improvements in cost of goods sold were partially offset by:

- Adverse foreign currency movement for raw material purchases;
- A range of COVID-19-related input price impacts, including both inbound and outbound freight costs;
- Increased processing time and operational costs associated with wheel finishing issues.

**Selling, general and administration expenses** increased by \$1.9m to \$13.0m. This increase reflects additional costs to support increased manufacturing and development activities, increased costs associated with public listing compliance and expanded sales and marketing activities.

The business continued to invest strongly in research and development required to improve the product technology, material systems and to bring its production processes to full industrialisation. Accordingly, **Research and Development (R&D) Expenses** of \$4.8m were recorded along with the capitalisation of \$12m development costs. During the year a number of programs completed development activities ahead of program launch and a number of new programs are under development.

The business continued to benefit from its collaborative R&D programs, in particular, through its Innovative Manufacturing Collaborative Research Centre with Deakin University.

**Other income** which includes grant income increased by \$1.2m to \$6.2m. In particular there was an increase in the expected R&D tax incentive refund in relation to the prior financial year.

Losses from anti-dilution shares and on conversion of financial instruments on IPO both relate to equity changes during the year and are related to fund raising activities. These items are one-off and non-cash in nature.

## CASHFLOW

|                                                    | 2020<br>\$m    | 2019<br>\$m   | Change<br>\$  |
|----------------------------------------------------|----------------|---------------|---------------|
| <b>EBIT</b>                                        | <b>(111.8)</b> | <b>(25.2)</b> | <b>(86.6)</b> |
| Change in working capital and other                | (11.3)         | (2.7)         | (8.6)         |
| Net interest paid (excl convertible loan interest) | (2.2)          | (2.0)         | (0.2)         |
| Non-cash losses related to IPO                     | 87.2           | –             | 87.2          |
| Other non-cash items in EBIT                       | 7.2            | 10.0          | (2.8)         |
| <b>Net cash used in operating activities</b>       | <b>(30.9)</b>  | <b>(19.9)</b> | <b>(11.0)</b> |
| Capital Expenditure                                | (14.6)         | (14.9)        | 0.3           |
| Intangible Expenditure                             | (12.3)         | (7.8)         | (4.5)         |
| <b>Net cash used in investing activities</b>       | <b>(26.9)</b>  | <b>(22.7)</b> | <b>(4.2)</b>  |
| <b>Net cash from financing activities</b>          | <b>45.7</b>    | <b>69.3</b>   | <b>(23.6)</b> |
| <b>Net Cash outflows</b>                           | <b>(12.1)</b>  | <b>26.7</b>   | <b>(38.8)</b> |

**Net Cash used in operating activities** increased by \$11.0m to \$30.9m driven by increased working capital and increased operating losses. The increase is largely due to growth in working capital, especially inventory which grew in line with business growth in FY20. Inventory includes 2,750 moulded wheels in work in process awaiting the new fascia technology and painted programs which will be finished and released for sale in the coming year. Other non-cash items in EBIT consist of depreciation and amortisation which was offset by other minor non-cash items.

## OPERATING AND FINANCIAL REVIEW (CONT)

**Net Cash used in investing activities** increased by \$4.2m to \$26.9m with significant investment in industrialisation assets which support future growth plans. Intangible expenditure increased by \$4.5m to \$12.3m resulting from the increased scope of R&D activities on the core wheel technology and new program development.

The **net cash inflow from financing activities** was from funds raised in the company's IPO and also the COVID-19 Placement.

In November 2019 the company completed its IPO, which included a primary raise of \$30m. During March and April 2020, the company raised \$27.7m to position the company as strongly as possible to deal with the impacts on the business associated with the COVID-19 virus. This raising was completed through a \$25m non-underwritten institutional share placement and a \$2.7m share purchase plan (SPP). The company elected to undertake this raising to continue to maintain its growth program, secure key raw materials and operate with greater security as a result of the uncertainty created by COVID-19 and its impact on the global economy.

The net cash outflow in the second half of FY20 saw elevated levels of operating and capital expenditure as the business responded to supply chain disruptions and invested in industrialisation assets. Cash outflows in the last six months that will either not carry forward or reverse include:

- COVID-19 related raw material safety stock buffer held in inventory will be released over the coming quarters with the expected stabilisation of global supply chains;
- Moulded wheel inventory will reduce during FY21 due to both the new fascia technology allowing moulded wheels to be finished and selling wheels through painted programs;
- Expansion capital requirements will reduce in the coming months as the current industrialisation assets are commissioned and the business has sufficient capacity for awarded programs;
- Stabilisation in R&D expenditure from the abnormally high fourth quarter FY20 spend due to fast tracking of the fascia and spoke core programs.

## CAPITAL EMPLOYED

|                               | 2020<br>\$m | 2019<br>\$m | Change<br>\$ |
|-------------------------------|-------------|-------------|--------------|
| Receivables                   | 7.9         | 9.0         | (1.1)        |
| Inventories                   | 27.8        | 9.7         | 18.1         |
| Less: Payables                | (17.0)      | (11.7)      | (5.3)        |
| Working capital               | 18.7        | 7.0         | 11.7         |
| Working capital / revenue     | 48%         | 46%         | (2%)         |
| Debtor days                   | 74          | 218         | (144)        |
| Inventory days                | 201         | 156         | 45           |
| Property, plant and equipment | 44.0        | 31.5        | 12.5         |
| Intangible assets             | 17.9        | 7.9         | 10.0         |
| Capital employed              | 80.6        | 46.4        | 34.2         |

**Capital employed** increased by \$34.2m to \$80.6m in June 2020.

**Working capital** increased by \$11.7m to \$18.7m. The increase is largely driven by growth in inventory. Inventory growth was primarily related to:

- Raw materials (\$2.2m increase) which is attributable to growth in stock levels associated with mitigating the risks of COVID-19 supply chain disruptions;
- Work in progress (\$10.2m increase). This was driven by a ramp-up in wheel sales and in addition work in progress includes 2,750 wheels related to the wheel finishing issues experienced during the year. These will be released for sale in the coming year;
- Finished goods (\$5.7m increase) which mainly relates to the change to sea freight for one customer where the wheels in transit at 30 June are not recognised in revenue until delivered to the customer's warehouse.

**Property, plant and equipment** increased by \$12.5m to \$44.0m as the company expanded production capacity throughout the year to support expected growth in current and near-term future programs.

**Intangible assets** increased by \$10.0m to \$17.9m reflecting the increased development activities being undertaken on customer programs and core technology development.

## OPERATING AND FINANCIAL REVIEW (CONT)

### NET DEBT

|                                 | 2020<br>\$m   | 2019<br>\$m | Change<br>\$  |
|---------------------------------|---------------|-------------|---------------|
| Loans and borrowings            |               |             |               |
| Current                         | 18.7          | 74.0        | (55.3)        |
| Non-current                     | –             | 25.5        | (25.5)        |
| Total loans and borrowings      | 18.7          | 99.5        | (80.8)        |
| Less: Cash and cash equivalents | (33.9)        | (45.8)      | 11.9          |
| <b>Net debt/(cash)</b>          | <b>(15.2)</b> | <b>53.7</b> | <b>(68.9)</b> |

**Net debt** decreased by \$68.9m to a net cash position of \$15.2m at June 2020. This was driven by the capital raised during both the IPO and COVID-19 raising, the conversion of convertible notes into equity during the IPO offset by the \$5m repayment of principal associated with the Ronal AG loan and the staged repayment of a grant advance to the State of Victoria as milestones associated with that grant were achieved. The level of net debt was also impacted by the cash used in both operating and investing activities throughout the year.

Arrangements to repay the \$13m Ronal AG term loan are well progressed. Key terms and conditions for a three year term loan facility with Export Finance Australia (EFA) have been agreed and this arrangement is now being documented. The EFA loan will be a \$13m three year term debt facility which will amortise over the three years, have quarterly repayments and the interest rate will be BBSY plus 5.95%. Completion is expected in the coming months.

## PROSPECTS

Carbon Revolution remains the only company globally to have successfully developed and manufactured single piece carbon fibre automotive wheels to OEM quality standards with commercial adoption across several major OEM models. Carbon fibre has the key advantage of being lighter than traditional automotive wheel materials, primarily steel and aluminium, for a given level of stiffness and durability. This weight saving delivers significant performance and efficiency benefits, which are highly valued by our core customers, global OEMs and their customers, the buyers of performance and luxury cars.

The company continues to invest strongly in new customer programs, core wheel technology and industrialisation technology. Our products are underpinned by an extensive intellectual property portfolio, including numerous granted and pending patents. Sales growth, signing new programs and the industrialisation of the manufacturing process remain key priorities for FY21.

Although some OEM customers have delayed the introduction of some programs, all customers are currently in production and demand for our technology remains strong. In FY21 the Company expects to:

- Deliver strong sales growth over FY20;
- Become gross profit positive during the second half of the FY21 year, when production levels lift and the full impact of industrialisation benefits can be realised;
- Realise the cashflow benefits of reducing inventories (both raw materials and work in progress), reduced expansion capital spend and reduced investment in research and development;
- Repay the \$13m Ronal AG loan, enter into a new three year loan facility with EFA and obtain a new working capital facility.

## FORWARD-LOOKING STATEMENTS

Carbon Revolution advises that this document contains forward-looking statements which may be subject to significant uncertainties outside of the Carbon Revolution's control. No representation is made as to the accuracy or reliability of forward-looking statement or the assumptions on which they are based. Actual future events may vary from these forward-looking statements and it is cautioned that undue reliance not be placed on any forward-looking statements.

# OPERATING AND FINANCIAL REVIEW (CONT)

## BUSINESS RISKS

Carbon Revolution is subject to risk factors, some of which are specific to Carbon Revolution's business activities and others that are of a more general nature. Any single risk event, or a combination of risk events, may have a material adverse impact on Carbon Revolution's business, operations, financial position or future performance.

This section does not purport to list every risk that may be associated with the business. While Carbon Revolution seeks to manage risks to prevent adverse outcomes, the actions taken to mitigate these risks cannot provide absolute assurance that a risk will not materialise, and many of these risks are outside the control of Carbon Revolution, the Board and Management.

| Risk                                               | Description of Risk and Potential Consequences                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mitigation strategies                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Risks associated with COVID-19 and other pandemics | <ul style="list-style-type: none"> <li>• There is a risk that Carbon Revolution's operations and future demand are further disrupted by the spread of COVID-19.</li> <li>• In the event that customers reduce or cease ordering wheels or factory disruptions cause Carbon Revolution to reduce production of its wheels or cease producing wheels altogether, this will have a material negative impact on Carbon Revolution's ability to achieve its forecasts. Carbon Revolution may also experience issues meeting required production under customer contracts.</li> <li>• There is risk the Company's suppliers are negatively impacted by COVID-19, thereby threatening the supply of raw materials and consumables.</li> <li>• Government policies or other authoritative directions may substantially impact or curtail Carbon Revolution operations.</li> </ul> | <ul style="list-style-type: none"> <li>• Carbon Revolution's customers have adopted their own new working protocols aimed at reducing the risk of a COVID-19 case in their business and at a rapid recovery if there were to be a case in their production facilities.</li> <li>• Moving to or continuing wheel sales via sea freight allows continued production and shipping of wheels in the event one or more customer's production facilities close due to a COVID-19 case temporarily causing a cease to production.</li> <li>• The business has adopted its own working protocols including: shift separation, wearing masks for all staff, working from home where ever practical, infra-red temperature test for all persons entering the building, visitors are extremely limited and must be absolutely necessary to be on site, increased focus on hand washing and sanitising and additional cleaning staff.</li> <li>• Raw materials stocks are constantly reviewed and safety stock is held to mitigate the risk of disruptions to the raw material supply chain.</li> </ul> |

| Risk                                                   | Description of Risk and Potential Consequences                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mitigation strategies                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Carbon Revolution may not be able to execute its plans | <ul style="list-style-type: none"> <li>• There is a risk that Carbon Revolution's industrialisation plans and growth strategy may not be successful, or may take longer or cost more than anticipated, which would adversely affect Carbon Revolution's financial position and performance.</li> <li>• There are a range of factors which may result in demand for Carbon Revolution's wheels being lower than anticipated, and many of these factors are outside Carbon Revolution's control. If demand for Carbon Revolution's wheels is lower than anticipated, this will adversely impact Carbon Revolution's ability to generate revenue which will in turn impact on Carbon Revolution's financial performance and prospects.</li> </ul> | <ul style="list-style-type: none"> <li>• Carbon Revolution is in constant communication with customers to identify any change in demand as early as possible to provide an enhanced ability to minimise impact on Carbon Revolution operations.</li> <li>• The company has well developed business plans and strategies that are regularly measured and adjusted where appropriate.</li> <li>• Key account management is established for all customers and key target customers. Sales performance, delivery in full and on time (DIFOT) and growth plans for each customer are regularly reviewed and appropriate actions are in place.</li> <li>• To reduce risk related to design and commissioning of industrialisation assets and their effective ongoing operation, new industrialised equipment is designed tested using discrete event simulation and virtual commissioning techniques before actual acquisition, construction and go live. Maintenance plans are established by the Industrialisation team for all new equipment before handover to the production maintenance team.</li> </ul> |

## OPERATING AND FINANCIAL REVIEW (CONT)

| Risk                                         | Description of Risk and Potential Consequences                                                                                                                                                                                                                                                                                                                                                                       | Mitigation strategies                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Relationships with customers may deteriorate | <ul style="list-style-type: none"> <li>Carbon Revolution has 11 customer programs with five OEMs and losing any one of these may significantly adversely affect its financial performance and prospects.</li> <li>Failing to enter into additional supply contracts and attract additional OEM customers will negatively impact on Carbon Revolution's prospects and likely future financial performance.</li> </ul> | <ul style="list-style-type: none"> <li>The company has well developed business plans and strategies that are regularly measured and adjusted where appropriate.</li> <li>Key account management is established for all customers and key target customers. Sales performance, DIFOT and growth plans for each customer are regularly reviewed and appropriate actions are in place.</li> </ul> <p>The establishment of a new executive role – Director, Customer Excellence, and appointment of a highly experienced person into this role will significantly mitigate this risk. This role will carry responsibility for all key customer deliverables related to programs post-award.</p> |

| Risk                                                                                                | Description of Risk and Potential Consequences                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Mitigation strategies                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Carbon Revolution may not have sufficient funds for operational requirements and to repay term debt | <ul style="list-style-type: none"> <li>Carbon Revolution has a term loan from Ronal AG, under which the company must pay Ronal AG the principal amount outstanding, which is \$13m, plus accrued interest, by 30 June 2021.</li> <li>Carbon Revolution is also party to a loan arrangement with the State of Victoria ("SOV"), under which the company was provided with an early advance of which \$5.5m is outstanding at 30 June 2020 and is repayable on 30 June 2021.</li> <li>Carbon Revolution has not yet become profitable and cashflow positive, as such, is currently reliant on its cash reserves and sources of new funds until it is cash flow positive.</li> <li>If the company's funds were to run out and there is an inability to raise funds when required, this may adversely impact on Carbon Revolution's financial performance and prospects.</li> </ul> | <ul style="list-style-type: none"> <li>Arrangements to repay the \$13m Ronal AG term loan are well progressed. Key terms and conditions for a three year term loan facility with Export Finance Australia (EFA) have been agreed and this arrangement is now being documented. If new term debt and working capital funding cannot be obtained, the company would look to negotiate extended terms with its current debt providers or raise equity funds to repay term debt.</li> <li>The SOV loan is expected to reduce during FY21 as the company earns grant funds which will be offset against this loan. At 30 June 2021, there is expected to be sufficient outstanding grant funds to be earned in future years that could potentially be used to offset the balance of this outstanding loan.</li> <li>The company's ability to raise additional funds through debt or the issue of securities will be subject to factors beyond the control of Carbon Revolution and its Directors, including general factors affecting the economy and capital markets (including COVID-19). There is no guarantee that such funding, whether debt, equity or otherwise, will be obtained or available on favourable terms, or at all.</li> </ul> |

## OPERATING AND FINANCIAL REVIEW (CONT)

| Risk                                                                                        | Description of Risk and<br>Potential Consequences                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Mitigation strategies                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Carbon Revolution is subject to inherent risks in the development and use of new technology | <ul style="list-style-type: none"> <li>• The implementation of new technology and manufacturing processes may be challenging and involves risks inherent in the development and use of new technology and in particular, the manufacturing of composite materials which is known to be complex.</li> <li>• Failure to properly implement new technology may result in Carbon Revolution's product failing during trials, failing to gain customer approval or being difficult to profitably commercialise.</li> <li>• The above risks may also result in higher scrap rates and quality issues than anticipated after customer validation and commencement of production. Higher scrap rates or quality issues may result in higher costs, and/or delays in deliveries to customers.</li> <li>• Failing to deliver to customer program deliverables, may result in negative customer perception about Carbon Revolution's ability to meet its supply obligations under its supply contracts. This in turn could adversely impact Carbon Revolution's ability to secure new programs, which would have an adverse impact on its ability to generate revenues.</li> </ul> | <ul style="list-style-type: none"> <li>• To reduce risk related to design and commissioning of industrialisation assets and their effective ongoing operation, new industrialised equipment is design tested using discrete event simulation and virtual commissioning techniques before actual acquisition, construction and go live. Maintenance plans are established by the Industrialisation team for all new equipment before handover to the production maintenance team'.</li> <li>• Carbon Revolutions new product introduction process involves stringent testing and validation regimes that are agreed with customers early in the life of the program.</li> <li>• The Company's technology has been thoroughly tested by numerous OEMs and it now has multiple wheels in market on vehicles. Therefore, the Company has sufficiently developed and proven the core wheel technology that it uses in new program development.</li> </ul> |

| Risk                                                                                         | Description of Risk and Potential Consequences                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mitigation strategies                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Carbon Revolution's operations may be restricted by third-party intellectual property rights | <ul style="list-style-type: none"> <li>Carbon Revolution relies on its own technology to develop, manufacture and sell its carbon fibre wheels. A number of Carbon Revolution's competitors are also developing carbon fibre wheel technology. There is a risk that these competitors may create, or have already created, intellectual property rights (including patents) that restrict Carbon Revolution's ability to exploit its own technology.</li> <li>Carbon Revolution is aware of certain granted patents and patent applications relating to certain technologies used in carbon fibre wheels which have been filed by competitors and industry participants in countries which are key markets into which Carbon Revolution supplies its carbon fibre wheels (including the US, Australia, Europe, Japan, and China).</li> <li>If these patents or patent applications (if granted) are found to be valid and Carbon Revolution is found to infringe them (where it cannot take alternative steps such as modifying its technology or entering into licensing or royalty arrangements), that may materially restrict Carbon Revolution from selling its wheels to its OEM customers.</li> <li>It is also possible that third parties may challenge Carbon Revolution's intellectual property rights or assert intellectual property infringement, breach of confidentiality, or make similar claims against Carbon Revolution (or its customers) under patent, trade secret or other intellectual property laws. Such claims, if made, may harm Carbon Revolution's business. If Carbon Revolution is forced to defend claims of intellectual property infringement or breach of confidentiality, whether they are with or without merit or are determined in Carbon Revolution's favour, the costs of such litigation will potentially be significant and will divert Management's attention from normal commercial operations.</li> </ul> | <ul style="list-style-type: none"> <li>Carbon Revolution believes that it has reasonable grounds to defend any claim either on the basis that it does not infringe or that it could successfully challenge the validity of these patents or patent applications (if granted).</li> <li>Carbon Revolution continually develops new technology and improves its wheel core technologies. New technologies are patented as soon as practical.</li> <li>The company opts to use product patents and not process patents wherever possible. This protects the work methods and process and protects the visible technology in or on the wheel.</li> </ul> |

## OPERATING AND FINANCIAL REVIEW (CONT)

| Risk                                                                                       | Description of Risk and Potential Consequences                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Mitigation strategies                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Carbon Revolution may not be able to retain key staff and effectively manage its workforce | <ul style="list-style-type: none"> <li>Carbon Revolution's ability to effectively execute its business strategy depends upon the performance and expertise of its key management and engineering personnel. The loss of key management personnel, or any delay in their replacement, or any extended period where key management personnel are unable to work may therefore adversely affect Carbon Revolution's operations and future performance.</li> <li>The achievement of Carbon Revolution's long-term growth plans requires the services of additional technical, manufacturing and sales staff over time. Carbon Revolution may not be able to attract and retain the services of such people, and this may limit Carbon Revolution's growth and consequently adversely affect Carbon Revolution's prospects and future financial performance.</li> </ul> | <ul style="list-style-type: none"> <li>The company is generally viewed as an exciting and innovative regional employer and a destination for top regional engineering talent. Employees generally enjoy the challenge of innovation and creating new processes and technology.</li> <li>The Carbon Revolution Board and management ensure appropriate employee communication and engagement strategies are in place. The Company measures engagement annually and adjusts engagement strategies to address findings and enhance engagement outcomes</li> <li>Carbon Revolution has an employee share scheme which means many staff are also owners of the business and are truly invested in delivering its current and future plans.</li> <li>The company has created a competitive and incentivised remuneration framework that is designed to attract, motivate and retain high quality executives as well as align with business objectives and generate sustainable growth.</li> <li>The company has developed its CARE program, the business's new mental health model. Engagement and staying close to the team are an important part of this program.</li> </ul> |





# SECTION 4/ 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 2020 (FY20) in compliance with the *Corporations Act 2001*.

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

|                        |                                            |
|------------------------|--------------------------------------------|
| <b>James Douglas</b>   | Independent, Non-Executive Chair           |
| <b>Jake Dingle</b>     | Chief Executive Officer, Managing Director |
| <b>Bruce Griffiths</b> | Independent, Non-Executive Director        |
| <b>Lucia Cade</b>      | Independent, Non-Executive Director        |
| <b>Dale McKee</b>      | Independent, Non-Executive Director        |
| <b>Mark Bernhard</b>   | Independent, Non-Executive Director        |
| <b>Peter Lewinsky</b>  | Independent, Non-Executive Director        |

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

## 4.1 DIRECTORS

### 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 Secretary as at the year end.

## DIRECTORS' REPORT (CONT)



### **JAMES DOUGLAS**

Independent, Non-Executive Chair

Appointed to the Board in 2011 and as Chair in 2012

Member of the Audit and Risk Committee

#### **Experience**

- Over 25 years of investment banking and venture capital experience in Australia and the United States
- Investment Director and General Partner for the Acorn Capital Expansion Fund, a Series B Venture Fund and Founder and general partner of Newmarket Capital, a late stage venture capital business
- Prior to establishing Newmarket Capital, James spent 15 years in investment banking, including as co-head of Global Banking at Citi (Australia) and Global Head of Consumer Products Investment Banking for Merrill Lynch in New York
- Science degree and Law degree from Melbourne University
- Graduate of the Australian Institute of Company Directors



### **JAKE DINGLE**

CEO, Managing Director

Appointed to the Board in 2008 and as CEO and MD in 2012

#### **Experience**

- Started at Carbon Revolution in 2008 as one of the initial investors and founders
- Background in engineering, operations, strategy and M&A within Australian listed companies
- Former head of M&A and Corporate Development for Goodman Fielder and has also held positions at BCG, L.E.K. and Tenix Defence Systems
- Mechanical Engineering degree from RMIT with First Class Honours and an MBA from the Melbourne Business School (Dean's List and Rupert Murdoch Fellow)
- Graduate of the Australian Institute of Company Directors



### **BRUCE GRIFFITHS OAM**

Independent, Non-Executive Director

Appointed: 2014

Chair of Remuneration and Nomination Committee

#### **Experience**

- Held a number of senior Executive roles within the manufacturing industry and has served as a Non-Executive Director of Quickstep Holdings Limited
- Awarded the Order of Australia Medal for services to the automotive manufacturing industry and to the community
- Graduate of the Australian Institute of Company Directors



### **LUCIA CADE**

**Independent, Non-Executive Director**

**Appointed: 2018**

**Member of Remuneration and Nomination Committee**

#### **Experience**

- Board and executive experience that spans utilities, technology and innovation, industry led research and development, construction, global technical advisory and infrastructure investment.
- Currently serves on the boards of South East Water (Chair), Paintback (Chair), Future Fuels CRC (Chair of Commercialisation Committee), Engineers Australia (Chair of Audit and Risk Committee), Regional Investment Corporation (member of Audit and Risk Committee)
- Engineering, Economics and Master of Engineering Science degrees from Monash University and an MBA from the Melbourne Business School at the University of Melbourne. Fellow of Engineers Australia and Fellow of Australian Institute of Company Directors



### **DALE McKEE**

**Independent, Non-Executive Director**

**Appointed: 2018**

**Chair of the Audit and Risk Committee**

#### **Experience**

- Former senior partner at PwC with extensive experience serving listed companies in audit, accounting, corporate governance, risk management and capital markets matters
- Former lead partner of PwC's risk management practice in Australia
- Former member of the Australian Auditing Standards Board
- Bachelor of Business from Federation University and a Fellow of the Institute of Chartered Accountants in Australia and New Zealand

## DIRECTORS' REPORT (CONT)



### MARK BERNHARD

Independent, Non-Executive Director

Appointed: 2019

Member of the Remuneration and Nomination Committee

#### Experience

- Significant board and executive management experience in the automotive industry, having served as Chairman and Managing Director of General-Motors Holden Australia from 2015 to 2018
- Chief Financial Officer and Vice-President of Shanghai-GM from 2011 to 2015
- Recently studied Transformational Management at Stanford University, holds an MBA from Deakin University and a Business/Accounting degree from Monash University
- Graduate of the Australian Institute of Company Directors



### PETER LEWINSKY

Independent, Non-Executive Director

Appointed: 2019

Member of the Audit and Risk Committee

#### Experience

- Significant board, investment banking and corporate advisory experience
- He has served or is currently serving on the boards of Ambulance Victoria, Holmesglen Institute of TAFE (Chair), TAL Superannuation Ltd (Chair), the Tasmanian Water and Sewerage Corporation, Australian Red Cross and Australian Centre for the Moving Image (Board President)
- MBA from the Melbourne Business School, Bachelor of Economics from Monash University. He also is a Fellow of the Institute of Chartered Accountants (FCA) and is a Fellow of the Australian Institute of Company Directors (FAICD)
- Bachelor degrees in civil engineering (honours) and economics from Monash University, a Masters of Engineering Science from Monash University and an MBA from the Melbourne Business School at the University of Melbourne

#### 4.1.1 COMPANY SECRETARY

David Nock was appointed Company Secretary on 13 September 2017 and has held the position since then. David has held a number of roles within Australian, US and European listed companies and previously worked as a solicitor at a top-tier Australian law firm and is an admitted solicitor in Victoria. He has Arts and Law (Hons) Degrees from Melbourne University and an MBA from the Melbourne Business School (Dean's List).

#### 4.2 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:

| Director        | Board meetings eligible to attend | Attended | ARC meetings eligible to attend | Attended | RNC meetings eligible to attend | Attended |
|-----------------|-----------------------------------|----------|---------------------------------|----------|---------------------------------|----------|
| James Douglas   | 29                                | 29       | 6                               | 6        | –                               | –        |
| Jake Dingle     | 29                                | 27       | –                               | –        | –                               | –        |
| Bruce Griffiths | 29                                | 27       | –                               | –        | 11                              | 11       |
| Lucia Cade      | 29                                | 27       | –                               | –        | 11                              | 11       |
| Dale McKee      | 29                                | 29       | 6                               | 6        | –                               | –        |
| Mark Bernhard   | 29                                | 28       | –                               | –        | 11                              | 11       |
| Peter Lewinsky  | 29                                | 24       | 6                               | 6        | –                               | –        |

All Directors can attend the sub-committees of the Board.

The **Audit and Risk Committee** (ARC) is comprised of Dale McKee (Chair), and James Douglas and Peter Lewinsky (Members).

The **Remuneration and Nomination Committee** (RNC) is comprised of Bruce Griffiths (Chair), and Lucia Cade and Mark Bernhard (Members).

## DIRECTORS' REPORT (CONT)

### 4.3 REMUNERATION REPORT

Dear fellow shareholders

On behalf of the Carbon Revolution Board of Directors, I am pleased to present the Company's inaugural Remuneration Report for the financial year ended 30 June 2020 (FY20). We would like to recognise the extensive work of the management team and all employees along with the support of long-term shareholders in building the business and achieving our ASX listing on 29 November 2019.

The Remuneration Report sets out remuneration information for the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and Non-Executive Directors. It describes the Carbon Revolution Remuneration Framework (Remuneration Framework) and pay outcomes for FY20 in a simple and transparent way.

#### Performance and Remuneration Outcomes for FY20

As a growing Australian technology company manufacturing advanced carbon fibre wheels for the global automotive industry, the Board determined that revenue growth, gross margin, EBITDA and successful listing were the key financial metrics for the FY20 Short Term Incentive (STI). Given the growth phase of the business, the Board also set strategic and operational objectives focused on safety, customer and business development, people and culture, technology and production capacity. The Board believes that financial and strategic targets that drive the growth of the business will deliver sustainable shareholder value.

The business achieved ASX listing on 29 November 2019. The listing of the business was an important step in delivering sustainable returns for our shareholders which will remain the focus of the Board. The business achieved revenue growth of 158% notwithstanding the impact of COVID-19 on customers and sales. Our operations continued safely through the COVID-19 pandemic with a 50% improvement in the Lost Time Injury Frequency Rate in FY20. Our ongoing investment in technology and our industrialisation program has continued to deliver manufacturing efficiencies, reduced costs, improved quality and expanded capacity, positioning the business for future growth. Through FY20 significant progress with our industrialisation strategy enhanced credibility with our customers which will support increased adoption.

The Board has adopted remuneration principles, detailed in section 3, to determine the following remuneration outcomes:

- (i) Fixed Remuneration and Non-Executive Directors Fees – no increases in Non-Executive Directors' fees or Fixed Annual Remuneration will be made in FY21 in light of economic circumstances resulting from the COVID-19 pandemic;
- (ii) Short Term Incentives (STI) - STIs were awarded at 45% of maximum opportunities and for FY20 will be delivered 100% in equity to further align employees and shareholders while also preserving cash. The impact of the COVID-19 pandemic required the Board to rigorously assess the impact of the pandemic on performance for several incentive targets. This is disclosed in section 7. Ultimately the Board applied its discretion to award fair STIs that reward and reinforce the growth of the business; and

- 
- (iii) One off equity award and long-term incentive - as detailed in the 2019 Prospectus was awarded to the CEO, CFO and other senior executives to reward them for building the business and for achieving listing. It was designed to align their interests with shareholders while also representing the LTI award for FY20.

#### **Remuneration Framework Review**

Each year, the Board reviews the Remuneration Framework, ensuring that it supports our business objectives, operates sustainably and is market competitive. The Board welcomes feedback on the Remuneration Report and we consider that feedback as part of our review. Given the listing occurred in November 2019 and recognising some of the remuneration arrangements reflect the origins of a smaller, non-listed company, the Board has identified a number of areas where the remuneration framework can be improved. The following review and changes were made in FY20:

- (i) Introducing a minimum shareholding policy for Non-Executive Directors, the CEO and senior executives (effective 1 July 2020). The details are set out in Table 3;
- (ii) Reviewing the design of the Short-Term Incentive (STI) Plan to enhance how both financial and non-financial performance are measured and rewarded. Details of the changes are included in section 5 of this report.

In the year ahead the Board will review the Long-Term Incentive (LTI) Plan and specifically the performance hurdles of the plan. Given the 2019 Prospectus set out the details of the FY21 LTI Plan, the outcomes of the review will be applicable for the FY22 plan. The changes will be disclosed to shareholders in the FY21 Remuneration Report.

We believe that these changes will enhance our Remuneration Framework.

I invite you to review the 2020 Remuneration Report.

#### **Bruce Griffiths**

Chair, Remuneration and Nomination Committee (RNC)

# DIRECTORS' REPORT (CONT)

## 1 PURPOSE

This Report sets out the remuneration arrangements for the Key Management Personnel (KMP) of Carbon Revolution for the year ended 30 June 2020. The report discloses remuneration data for the period from 1 July 2019 to 30 June 2020. It has been prepared based on the requirements of section 300A of the *Corporations Act 2001* (Cth) (Corporations Act) and Corporations Regulation 2M.3.03 and has been audited by Carbon Revolution's external auditor. The aim of this Report is to provide shareholders a 'plain English' understanding of Carbon Revolution's remuneration framework, policies and individual KMP remuneration outcomes for FY20. The report also details proposed changes for the financial year ended 30 June 2021 (FY21).

## 2 KEY MANAGEMENT PERSONNEL (KMP)

Section 300A of the Corporations Act requires disclosure of remuneration information for KMP, with KMP defined in Australian Accounting Standard AASB 124 Related Party Disclosures as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

KMP for the year ended FY20 are detailed in the table below.

Carbon Revolution's KMP are the Non-Executive Directors, the Managing Director and the Chief Financial Officer.

**Table 1: Key management personnel**

| Name                                  | Position                | Term as KMP                            |
|---------------------------------------|-------------------------|----------------------------------------|
| <b>Non-executive Directors (NEDs)</b> |                         |                                        |
| James Douglas                         | Chair                   | Full year                              |
| Bruce Griffiths                       | Director                | Full year                              |
| Lucia Cade                            | Director                | Full year                              |
| Dale McKee                            | Director                | Full year                              |
| Mark Bernhard                         | Director                | Full year                              |
| Peter Lewinsky                        | Director                | Full year                              |
| <b>Executive KMP</b>                  |                         |                                        |
| Jake Dingle                           | Managing Director & CEO | Full year                              |
| Bryce Houghton                        | Chief Financial Officer | Part year<br>(to 12th August 2019)     |
| Gerard Buckle                         | Chief Financial Officer | Part year (from 9th<br>September 2019) |

### 3 REMUNERATION STRATEGY AND FRAMEWORK

**Objective:** Carbon Revolution's remuneration framework is performance based and is designed to pay fairly for achieving the business strategy and delivering sustainable value to shareholders and employees.

**Principles:** The Remuneration and Nomination Committee (RNC) has adopted the following principles to structure the remuneration framework and to guide remuneration decisions.

**Table 2: Key principles of Carbon Revolution's remuneration policy**

| Principle                              | Explanation and Practice                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Performance based                      | All aspects of remuneration including fixed remuneration and any incentives, are based on annual performance against strategic objectives, business plans and longer-term shareholder returns. The variable components of remuneration (both short term and long term) are driven by challenging targets designed to create sustained shareholder value. A significant proportion of executive remuneration is 'performance based' as disclosed in Table 12.                                                                                                             |
| Market competitive                     | Remuneration opportunities, including those elements which can be earned subject to performance, are set at competitive levels that will attract, motivate and retain high quality executives. The Board reviews fixed and variable remuneration by undertaking regular market benchmarking against equivalent roles from organisations with similar market capitalisation, revenue and EBITDA. The Board has set the policy for fixed remuneration at the market median for the comparator group and up to top quartile for total remuneration for stretch performance. |
| Drives strategic and shareholder value | The Board ensures that incentive plans and performance measures are designed to create sustained shareholder value. The Board ensures the performance measures in both the STI and LTI plans are sufficiently demanding and promote the delivery of both annual business plans and the long-term strategy.                                                                                                                                                                                                                                                               |

## DIRECTORS' REPORT (CONT)

|                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Promotes employee ownership | <p>Carbon Revolution encourages all employees to act like owners. Increasing alignment between employees and shareholders has been promoted through:</p> <ul style="list-style-type: none"><li>(i) the Tax-Exempt Employee Share Ownership Plan (TESP). Under this plan eligible employees are provided up to \$1,000 of Carbon Revolution shares per annum;</li><li>(ii) Including significant equity in the design of both STI and LTI plans. This aligns KMP and senior executives with shareholder interests through a significant emphasis on variable remuneration;</li><li>(iii) NEDs, Executive KMP and senior executives are required to hold, or make progress towards the minimum shareholding requirements set out in the Minimum Shareholding Policy.</li></ul> |
| Simple and fair             | <p>Remuneration arrangements should be simple for participants and shareholders to understand. They should be cost effective to administer. The Board will oversee the design of remuneration arrangements and use appropriate discretion, where required, to ensure there are not inappropriate benefits and that performance and the creation of shareholder value is rewarded.</p>                                                                                                                                                                                                                                                                                                                                                                                        |

**Elements:** The key elements of Carbon Revolution's executive remuneration and Non-Executive Director fee frameworks are outlined below, with further details provided in the body of the report.

Table 3: FY20 Remuneration framework

| Element of Remuneration                                                                                                                    | Purpose and Market Positioning                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Measures                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Fixed Annual Remuneration</b><br><br>Includes base salary, superannuation, and other eligible salary sacrifice benefits                 | To pay fairly against the market for comparable roles<br><br>Set to attract and retain capable employees<br><br>Set at the market median for Comparator Group companies defined as ASX All Industries, excluding Financials and Resources, with a market capitalisation between \$200M-\$400M                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Role and Responsibility<br><br>Skills, experience and accountability<br><br>80-120% of the median for comparable roles<br><br>Reviewed annually based upon performance and economic data<br><br>Reviewed for promotions                                                                                                           |
| <b>Short-Term Incentive (STI)</b><br><br>Annual incentive opportunity delivered in cash and equity including Short Term Incentive Deferral | Drive and reward the achievement of challenging annual growth and performance targets<br><br>Target is set at median of Comparator Group<br><br>The Board has the discretion to adjust STI outcomes to ensure that individual outcomes are appropriate<br><br>Typically, 50% of STI award is made in cash and 50% deferred into Rights through the Equity Incentive Plan (EIP) which is subject to a continuous service condition. This generally requires the participant to be employed by the Group until the one-year anniversary on which the Rights are granted. In FY20 the Board determined that 100% of all STI awards will be delivered in Rights and that 50% of the Rights awarded to Executive KMP and executives will remain subject to a 12-month service condition | Financial – includes revenue, gross margin and EBITDA objectives<br><br>Non-financial focus on strategic and operational objectives including safety, customer, manufacturing efficiency, industrialisation and business development objectives<br><br>Assessment of financial and non-financial objectives are made by the Board |

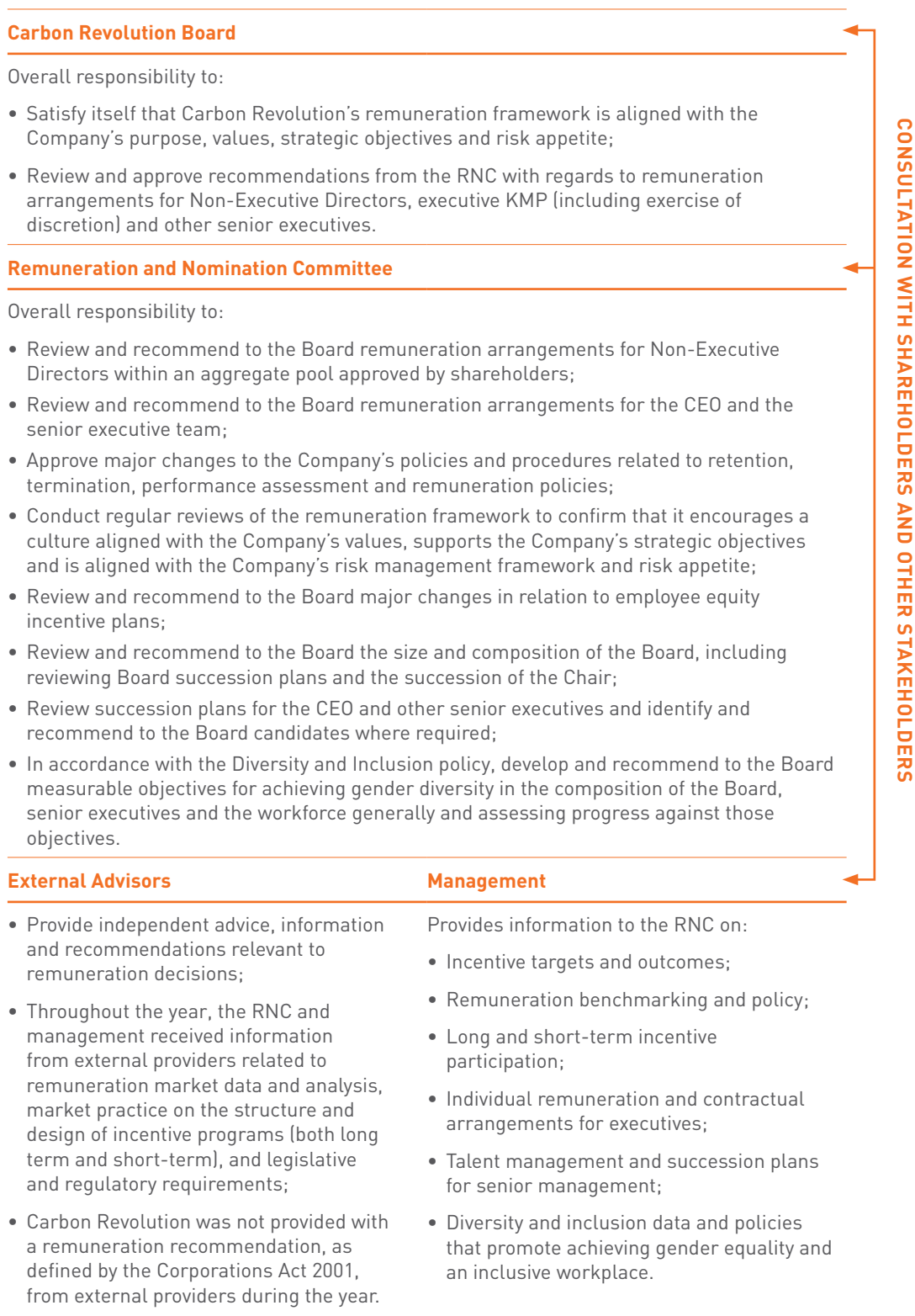
## DIRECTORS' REPORT (CONT)

|                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Long-Term Incentive (LTI)</b>                                                                                                                                                                                                                                                                                                                                                                                                                     | <p>Achieve shareholder alignment through equity ownership</p> <p>Maximum grants of options are issued through the EIP and are set at median for Comparator Group</p> <p>Achieve shareholder alignment through equity ownership</p> <p>Maximum grants of options are issued through the EIP and are set at median for Comparator Group</p>                                                                                                                                                                                                       | <p>A one-off grant of Options was made through the Employee Share Ownership Plan (ESOP) in FY20 to reward executives' efforts in building the business and achieving listing</p> <p>The grant has a 3-year service condition and an exercise price of \$2.60. Full details are provided in section 6 and Table 14</p> <p>Holders of options are not entitled to dividends until the options have been exercised and converted into shares</p> |
| <b>Total Remuneration</b>                                                                                                                                                                                                                                                                                                                                                                                                                            | <p>Is designed to attract, retain and reward executives to deliver sustainable returns for shareholders with a significant proportion of Total Remuneration being 'at risk' and performance based. Allows participants to earn up to upper quartile compared with comparator group for stretch performance</p>                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Non-Executive Director Fee Framework</b>                                                                                                                                                                                                                                                                                                                                                                                                          | <b>Purpose and Market Positioning</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Fees</b>                                                                                                                                                                                                                                                                                                                                                                                                                                          | <p>Non-Executive Directors are paid a base fee for service to the Board and an additional fee for service to the Board committees</p> <p>The fees are set with consideration to the fees paid in companies of a similar size and complexity with the most recent benchmarking using the Comparator Group of ASX200-300 companies</p> <p>The fee pool is currently \$800,000 per annum including superannuation</p> <p>There are no retirement benefit schemes for Non-Executive Directors other than statutory superannuation contributions</p> |                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Minimum Shareholding Requirements</b>                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <p>In FY20 the Board approved the Minimum Shareholding Policy which requires Non-Executive Directors to hold shares equivalent in value to 12 months base fees, the CEO and CFO to hold shares equivalent in value to 12 months of Fixed Annual Remuneration and other senior executives to hold shares equivalent in value to six months of Fixed Annual Remuneration. Participants will be provided reasonable time to acquire these interests</p> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                               |

## 4 REMUNERATION GOVERNANCE

Carbon Revolution's remuneration governance framework is set out below. The Board oversees the remuneration policy both directly and through the Remuneration and Nomination Committee. The composition and functions of the Remuneration and Nomination Committee, which oversees remuneration issues and human resources matters, are set out in the charter available from the Carbon Revolution website. The charter was reviewed and updated during the year.

**Figure 1: Carbon Revolution's remuneration governance framework**



### 5 ACTIVITIES OF THE RNC IN FY20

The RNC has been active throughout the year in terms of reviewing the remuneration framework to ensure the design meets its objectives and is consistent with the principles set. The RNC also reviewed and approved the broader people and culture strategy for the business. A review and evaluation of the performance of the RNC was completed in accordance with its charter.

#### KEY POLICIES APPROVED BY THE RNC

##### (a) Minimum Shareholding Policy

A key principle of the remuneration framework is to promote employee ownership. The Board believes that the interests of all KMP and the senior executive team should be closely aligned to those of shareholders through significant exposure to the Company's share price and dividends. Accordingly, in FY20 the Board formally resolved that the following minimum shareholding requirements will be implemented:

- the value of 100 per cent of base fees for Non-Executive Directors;
- the value of 100 per cent of fixed remuneration for the CEO and CFO; and
- the value of 50 per cent of fixed remuneration for other senior executives.

All KMP and senior executives are expected to build their shareholding on a progressive basis over a reasonable period. Given the shareholdings prior to listing, most KMP exceed these minimum requirements as detailed in tables 16 and 19. The Board regularly monitors the shareholding of KMP and senior executives. The Equity Incentive Plan is an important mechanism to drive executive share ownership through the regular vesting of rights on the achievement of performance hurdles.

#### REVIEW OF THE REMUNERATION FRAMEWORK

##### (a) Short term incentive plan

The RNC undertook a review of the STI plan since listing. This review has helped build upon our performance-based pay principle. The review improves the weightings applied to financial and non-financial objectives. The FY21 plan will have 60% weighted to financial results with the primary financial goals focussed on revenue growth, EBITDA and cash management. Of the 40% weighted to non-financial objectives, half will be allocated to set corporate objectives in the areas of safety and securing new wheels programs with the other half allocated to achieving strategic or operational objectives related to the role. Given the growth and need to build capacity of the business, the Board believes these weightings are appropriate and adequate to align with shareholders. The changes from this review will be implemented in the FY21 STI Plan and outcomes disclosed in the FY21 Remuneration Report.

##### (b) Long-Term Incentive Plan

The Board has determined that the FY21 plan as disclosed in the 2019 Prospectus will apply for the FY21 offer. However, the Board recognises that further review of the future performance hurdles is warranted to ensure optimum alignment with the principles of the remuneration strategy. The outcomes of the review will be applicable for the FY22 plan. The changes will be disclosed to shareholders in the FY21 Remuneration Report.

### (c) Employee ownership

The RNC has identified additional ways to promote further employee ownership of Carbon Revolution securities. The Board has approved a NED fee sacrifice plan and will implement an employee salary sacrifice plan. These plans are designed to further align interests of employees and NEDs with shareholders while also preserving cash. Details of the NED fee salary sacrifice plan and employee salary sacrifice plan as it relates to the CEO will be included in the 2020 Notice of Meeting for shareholder approval. Upon approval these plans will be implemented in FY21 and disclosed in the FY21 Remuneration Report.

### (d) Non-Executive Director fees

In reviewing fees for FY21 the Board determined there would be no increases to base or committee fees in FY21.

## 6 COMPOSITION OF REMUNERATION

The components of the fixed and variable or 'at risk' remuneration (STI and LTI) are detailed below.

### (i) Fixed remuneration

Fixed remuneration comprises base salary, superannuation and other eligible salary sacrifice benefits. As discussed above, fixed remuneration is targeted at the median of the market for jobs of comparable size and responsibility in the comparator group defined as ASX All Industries, excluding Financials and Resources, with a market capitalisation between \$200M and \$400M. In some cases, superior performance or strong market demand for specific job categories may justify above-median fixed remuneration.

Fixed remuneration is reviewed annually or on promotion. There are no guaranteed increases included in any executives' contracts.

### (ii) At risk remuneration – short term incentive plan

**Table 4: Details of the short term incentive plan**

|                                 |                                                                                                                                                                                                                                                                                                                         |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Purpose</b>                  | To drive individual and team performance to deliver annual business plans and increase shareholder value.                                                                                                                                                                                                               |
| <b>Frequency and timing</b>     | Awards are determined on an annual basis with performance measured over the year to 30 June and payment made in September.                                                                                                                                                                                              |
| <b>Financial measures</b>       | All eligible employees have a common set of financial KPIs set at the commencement of the performance period. The key financial goals in FY20 were revenue growth, gross margin, EBITDA and successful listing.                                                                                                         |
| <b>Non-financial objectives</b> | Non-financial objectives include strategic and operational goals that are aligned to the business plan. These goals include safety improvements, customer goals, operational improvements including quality and cost, implementation of the industrialisation program, technology and productivity and business growth. |

## DIRECTORS' REPORT (CONT)

|                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Why the performance conditions were chosen</b> | <p>The Board believes that having a mix of financial and non-financial KPIs will provide measurable financial performance criteria strongly linked to growth and year-on-year shareholder returns and encourage the achievement of business goals consistent with the Company's overall objectives.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Assessment of performance against measures</b> | <p>At the end of the Carbon Revolution financial year, an assessment is made of both the group financial performance and each participant's performance compared with the performance goals set. A review of the Managing Director's performance is completed by the Chair and discussed by the Board. Reviews of senior executives are completed with the Managing Director to determine performance against the relevant individual objectives.</p> <p>The RNC approves KMP and senior executive STIs and the overall STI pool in aggregate.</p> <p>These methods of assessing performance were chosen because they are, as far as practicable, objective, fair and are the most appropriate way to assess true financial performance of the Company, the Executive KMP's individual contribution and determine remuneration outcomes.</p> |
| <b>Board discretion</b>                           | <p>The intention is to minimise discretionary adjustments to STI outcomes, however, the Board retains overriding discretion to adjust the final STI outcome. This is an important measure to ensure any STI award is appropriate in the circumstances and that performance and the creation of shareholder value is rewarded.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

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**Equity  
deferral**

The EIP will be used to deliver the deferred equity component of STI awards. Typically, any STI award to executive KMP and senior executives will be delivered 50% in cash and 50% in Rights. In FY20 the Board determined that all participants would have 100% of their STI outcome delivered in the form of equity in lieu of a cash payment. This decision was made to further align employees with shareholders while also preserving cash.

A Right entitles the participant to acquire a Share at no cost on vesting, subject to the satisfaction of vesting conditions. Rights do not carry dividend or voting rights prior to vesting. Shares allocated on vesting of Rights carry the same dividend and voting rights as other Shares.

Under the EIP rules the Board has broad clawback powers if, for example, the participant has acted fraudulently or dishonestly or there is a material financial misstatement.

For FY19 awards granted during FY20, the number of Rights granted to each participant was determined by dividing the value of the equity component of the participant's STI award by the Offer Price. For future years the number of Rights granted will be determined by the volume weighted average price of Shares traded on ASX during the 20 trading day period following release of the full year financial results.

50% of Rights awarded to executive KMP and senior executives in FY20 will be subject to a continuous service condition, which generally requires the participant to be employed by the Group until the one-year anniversary of the date on which the Rights are granted.

Unless the Board determines otherwise:

- if a participant's employment is terminated for cause or a participant resigns (or gives notice of their resignation), all of their unvested Rights will lapse; and
  - if a participant ceases employment for any other reason (such as retirement, redundancy, death, total & permanent disability, or termination by mutual agreement), the Rights will remain and will vest in the ordinary course.
- 

**(iii) At risk remuneration – long term incentive plan**

Carbon Revolution's LTI program aims to:

- drive performance and deliver strategic objectives that create long-term shareholder value;
- promote the opportunity for executives to build their interests in Carbon Revolution equity; and
- attract, motivate and retain the necessary executive talent to grow the business and increase returns to shareholders.

All securities referred to in this report are granted by Carbon Revolution Limited.

In FY20 the EIP provided a one-off equity award to Executive KMP, senior executives and a small number of other key staff. This was to reward recipients for building the business and for achieving listing. It was also designed to align their interests with shareholders while also representing the LTI award for FY20. The detail of the ESOP Award is detailed below:

## DIRECTORS' REPORT (CONT)

Table 5: Summary of the FY20 ESOP Award

|                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Eligibility</b>                    | Managing Director, senior executives and a small number of other key staff were eligible for the ESOP Award as approved by the Board.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Grant frequency</b>                | A one-off award.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Type of award</b>                  | Options which entitle the participant to acquire a Share on vesting and exercise, subject to the satisfaction of vesting conditions and payment of an exercise price.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Quantum of Grants</b>              | <p>As set out in the prospectus the ESOP award was capped at 4% of the issued share capital of the Company at the time of Listing. 5,093,678 Options were issued under the ESOP award.</p> <p>The grants of Options were made following extensive market benchmarking of other companies who recently listed on the ASX. The Board approved the ESOP grant in recognition of the extensive work completed to build the business, for achieving listing on 29 November 2019 and to further align long-term interests of senior executives with shareholders. Further details are provided in Table 14.</p>                                                                                                                                         |
| <b>Grant Date</b>                     | Options were granted shortly after listing on 23 December 2019                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Issue and exercise price</b>       | <p>The Options were issued to the participant at no cost.</p> <p>Participants must pay an exercise price to exercise their Options. The exercise price for Options issued under the ESOP will be the offer price on listing of \$2.60. Each option had a fair value of \$0.77 at grant date as provided by a third-party valuation.</p>                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Vesting and performance period</b> | <p>The Options vest three years from the date of Listing, on 29 November 2022.</p> <p>Options will vest at the end of the vesting period, subject to the cessation of employment provisions outlined below. Participants will be required to pay an exercise price to exercise their Options which acts as a "share price" hurdle. There are no other specific performance conditions attaching to the Options as the ESOP Award was to reward executives for building the business and for achieving listing.</p>                                                                                                                                                                                                                                |
| <b>Exercise of options</b>            | <p>Participants may exercise any vested Options from the date the Options vest until the fifth anniversary of the date on which the Options are granted. After that time, any unexercised Options will lapse.</p> <p>In order to exercise an Option, a participant must submit an exercise notice and pay the exercise price.</p>                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Dividends and voting rights</b>    | Options do not carry dividend or voting rights prior to vesting and exercise. Shares allocated on exercise of Options carry the same dividend and voting rights as other Shares.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Cessation of employment</b>        | <p>Unless the Board determines otherwise:</p> <ul style="list-style-type: none"> <li>• if a participant's employment is terminated for cause or a participant resigns (or gives notice of their resignation) prior to the vesting date, all of their unvested Options will lapse;</li> <li>• if a participant ceases employment for any other reason (such as retirement, redundancy, death, total &amp; permanent disability, or termination by mutual agreement) prior to the vesting date, all of their unvested Options will remain on foot and vest in the ordinary course; and</li> <li>• all vested Options will remain on foot if a participant ceases employment after the vesting date and must be exercised within 90 days.</li> </ul> |

|                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Restrictions on dealing</b>                        | Prior to vesting, the Plan Rules provide that participants must not sell, transfer, encumber, hedge or otherwise deal with their incentives. After vesting, participants will be free to deal with their incentives, subject to the Securities Dealing Policy.                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Clawback and preventing inappropriate benefits</b> | The Board has broad clawback powers if, for example, the participant has acted fraudulently or dishonestly or there is a material financial misstatement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Change of control</b>                              | <p>If there is a takeover bid or the Board considers a change of control is likely to occur, the Board has the discretion to accelerate vesting of some or all of a participant's unvested Options. Where only some of the Options vest, the remainder will lapse, unless the Board determines otherwise. Any vested but unexercised Options will be exercisable for a period of 60 days or otherwise for a period notified by the Board and will lapse after the end of that period if they are not exercised.</p> <p>If an actual change of control occurs before the Board has exercised its discretion, all unvested Options will vest and participants will have 60 days to exercise vested Options.</p> |

(iv) Other equity incentive plans

**Table 6: Other equity incentive plans**

| <b>Tax Exempt Employee Share Ownership Plan (TESP)</b> |                                                                                                                                                                                    |
|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Purpose</b>                                         | To encourage share ownership by enabling employees to benefit from favourable Australian tax treatment.                                                                            |
| <b>Eligibility</b>                                     | All employees (except executives, CEO and directors), who have the equivalent of at least six months service at the date the shares are allotted.                                  |
| <b>Form and quantum of award</b>                       | Each year, the Board approves the allocation of shares up to a maximum value of \$1,000 (being the limit of the tax exemption) at no cost for each eligible participant.           |
| <b>Vesting period</b>                                  | Shares vest immediately upon acquisition by participants. The shares can only be sold three years after the date of grant, unless the participant's employment ceases before then. |
| <b>Absence of a performance condition</b>              | The plans are designed to encourage share ownership for employees and therefore do not have any performance conditions attached.                                                   |
| <b>Dividends and voting rights</b>                     | Participants are entitled to dividends and other distributions and have full voting rights.                                                                                        |

### 7 LINKING REMUNERATION TO PERFORMANCE

A key underlying principle of Carbon Revolution's executive remuneration strategy is the link between company performance and executive reward. This section outlines how key financial and non-financial performance have driven remuneration outcomes. Tables 7 and 8 summarise key performance measures for financial and non-financial objectives. Table 9 provides the FY20 outcomes approved by the Board for Executive KMP. The LTI plan has not reached the end of the performance period, however ESOP has been linked to company performance as the value of options ultimately depends on share price performance.

As Carbon Revolution only listed on the ASX on 29 November 2019 it is not possible to address the statutory requirement that Carbon Revolution provides a five-year explanation of the link between company performance and remuneration. Table 7 will be expanded in future years to address this requirement.

The Board assessed the financial and non-financial performance in determining the STI outcomes for executive KMP and other participants. The Board believes that financial and strategic targets that drive the growth of the business will deliver sustainable shareholder value and weighted these accordingly. The Board determined that 45% of maximum STI opportunities would be awarded. Table 9 provides the FY20 STI outcomes approved by the Board for Executive KMP.

#### Board Discretion

COVID-19 directly impacted the achievement of several goals set by the Board while also redirecting management activity to create other strategic value. In reaching the FY20 STI determination, the Board thoroughly assessed the impact of COVID-19 on the financial and non-financial results. The Board exercised its discretion to provide fair outcomes for executive KMP as set out in Table 9. The Board exercised its discretion to determine that all participants would have 100% of the STI outcome delivered in the form of Rights. This decision was made to further align employees with shareholders while also preserving cash. Fifty per cent of Rights awarded to executive KMP and senior executives in FY20 will remain subject to a 12-month continuous service condition. Further details of this for executive KMP are provided in table 9.

#### (i) STI and financial measures

Given the growth orientation of the business the key financial metrics assessed by the Board were revenue growth, gross margin, EBITDA and successful listing which was achieved on 29 November 2019. The business achieved revenue growth of 158% notwithstanding the impact of COVID-19 on customers and sales. The Board assessed the goals of revenue growth and listing at target while gross margin and EBITDA were assessed below target.

**Table 7: Key Indicators of financial performance and shareholder returns in FY20**

| Financial performance |                         |                       |                     |                                               |                            |                                  |
|-----------------------|-------------------------|-----------------------|---------------------|-----------------------------------------------|----------------------------|----------------------------------|
|                       | Revenue<br>(\$ million) | EBITDA<br>(\$million) | Dividend<br>(cents) | Total<br>Shareholder<br>Return % <sup>1</sup> | Earnings Per<br>Share (\$) | Share price<br>(\$) <sup>2</sup> |
| <b>FY20</b>           | 38.9                    | -17.1                 | nil                 | -29.2                                         | -1.14                      | 1.84                             |

1 TSR is calculated as the change in share price since listing on the ASX plus dividends paid during the financial year divided by the opening share price on listing being 29 November 2019. This differs to the full year TSR where existing shareholders prior to listing were able to realise part of their investment.

2 The opening share price on listing on the ASX on 29 November 2019 was \$2.60

## (ii) STI and non-financial measures

Each year the Board approves a range of strategic and operational goals that support the growth of the business. Table 8 summarises the key non-financial goals and assessments of performance made by the Board.

**Table 8: Non-financial goals and achievements**

| Performance area               | Measure                                                                                     | Performance                                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------|---------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Workplace Health, Safety (WHS) | Lost Time Injury Frequency Rate (LTIFR) and Medical Treatment Injury Frequency Rate (MTIFR) | Targets exceeded for both for LTIFR and MTIFR. The LTIFR reduced to 1.1 representing a 50% improvement. The MTIFR reduced to 5.0 representing a 44% improvement. These results were achieved as the business grew and total hours worked doubled in FY20. Additionally, the business introduced Mental Health program, CARE, specifically designed for the Carbon Revolution team. |
| People and Culture             | Employee Engagement Score                                                                   | Target met – the employee engagement score was maintained at 72 during the year. This was positive given the workforce increased by 327 employees to 600 during the year and the impact of COVID-19.                                                                                                                                                                               |
| Customers                      | Yield, Quality                                                                              | Target not met – yield and quality below target offset by development of new fascia technology that will address the majority of quality issues and provide a materially enhanced aesthetic finish to our wheels. This technology will also reduce cost and inventory levels.                                                                                                      |

## DIRECTORS' REPORT (CONT)

|                                      |                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Technology and Productivity          | Manufacturing Efficiency and Growing Capacity       | Targets met - ongoing implementation of the industrialisation program has operational and strategic dimensions. Operationally the industrialisation program has resulted in increased rate from approximately 12,000 to over 30,000 moulded wheels per annum. Strategically the industrialisation program also delivered detailed design work of the mega line that significantly improves capacity, quality, cost and intellectual property. |
| Business Development                 | New Wheel Programs and Future Wheel Volumes secured | Partially met – while three new wheel programs were achieved, the ability to secure new wheel programs in FY20 was negatively impacted by COVID-19 due to the interruptions our customers faced across their operations and planning processes.                                                                                                                                                                                               |
| Intellectual Property (IP) Portfolio | Innovations Submitted                               | Target met - as a global technology business developing and protecting intellectual property creates long-term shareholder value. During the year the IP pipeline was enhanced with 20 specific production innovations.                                                                                                                                                                                                                       |

**Table 9: FY20 STI Awards**

**FY20 STI Awarded<sup>1</sup>**

|                                                      | <b>\$ Maximum STI opportunity</b> | <b>\$ STI Awarded</b> | <b>% of Max STI Awarded</b> | <b>% of Max STI Forfeited</b> |
|------------------------------------------------------|-----------------------------------|-----------------------|-----------------------------|-------------------------------|
| Managing Director – Jake Dingle                      | 300,000                           | 135,000               | 45%                         | 55%                           |
| Chief Financial Officer – Gerard Buckle <sup>2</sup> | 113,151                           | 50,918                | 45%                         | 55%                           |

1 As part of approving the FY20 STI awards, the Board determined that all participants would have 100% of their STI outcome delivered in the form of Rights in lieu of a cash payment. The number of Rights allocated is calculated by dividing the \$STI Awarded by the 20 day VWAP of Shares traded on ASX during the 20 trading day period following release of the full year financial results. 50% of Rights issued to executive KMP and senior executives for the FY20 STI will remain subject to a 12-month service condition. The minimum value of this award is nil and the maximum value will be determined by the share price of the Company.

2 Mr Buckle has a pro rata STI payment awarded given his commencement date of 9 September 2019. The maximum STI opportunity has also been represented on a prorata basis.

### (iii) Long Term Incentive Plan

The LTI plan has not reached the end of the performance period, however ESOP has been linked to company performance as the value of options ultimately depends on share price performance.

## 8 SERVICE AGREEMENTS

### Managing Director – Executive service agreement

Jake Dingle was appointed as Managing Director of Carbon Revolution effective 18 April 2012. Mr Dingle's remuneration package is summarised as follows:

**Table 10: Managing Director's remuneration package**

|                           |                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Fixed remuneration</b> | Fixed annual remuneration of \$500,000 inclusive of superannuation contributions effective from 2 September 2019. Fixed remuneration is reviewed annually. Increases are not guaranteed.                                                                                                                                                         |
| <b>Notice period</b>      | Under the Executive's Service Agreement there is no fixed term and Mr Dingle's employment can be terminated by: <ul style="list-style-type: none"> <li>• the company giving him twelve months' notice of termination; or</li> <li>• Mr Dingle giving six months' notice of resignation.</li> </ul>                                               |
| <b>STI</b>                | There is no minimum entitlement to an STI payment and the maximum STI opportunity is 60% of fixed annual remuneration for exceptional performance.<br><br>Under the STI deferral plan, typically 50% of the STI value will be deferred into Rights which vest in twelve months. Further detail on the STI deferral plan is contained in Table 4. |
| <b>LTI</b>                | Details of the one-off equity award of ESOP Options for FY20 and performance conditions set by the Board are set out in Table 5. From FY21, the value of any award of Rights is currently set at a maximum of 75% of fixed annual remuneration.                                                                                                  |

#### **Chief Financial Officer – Executive service agreement**

Gerard Buckle was appointed as Chief Financial Officer effective 9 September 2019. Mr Buckle's remuneration package is summarised as follows:

**Table 11: Chief Financial Officer's remuneration package**

|                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Fixed remuneration</b> | Fixed annual remuneration of \$350,000 inclusive of superannuation contributions effective from 9 September 2019. Fixed remuneration is reviewed annually, but with no guarantee of an increase.                                                                                                                                                                                                                                                                                                                                        |
| <b>Notice period</b>      | Under the Executive's Service Agreement, Mr Buckle's employment can be terminated by: <ul style="list-style-type: none"> <li>• the company giving him six months' notice of termination; or</li> <li>• Mr Buckle giving six months' notice of resignation.</li> </ul>                                                                                                                                                                                                                                                                   |
| <b>STI</b>                | There is no minimum entitlement to an STI payment and the maximum STI opportunity is 40% of fixed annual remuneration for exceptional performance.<br><br>Under the STI deferral plan, typically 50% of the STI value will be deferred into Rights which vest in twelve months. Further detail on the STI deferral plan is contained in Table 4.                                                                                                                                                                                        |
| <b>LTI</b>                | Details of the one-off equity award of ESOP Options for FY20 and performance conditions set by the Board are set out in Table 5. From FY21, the value of any award of Rights is currently set at a maximum of 60% of fixed annual remuneration.                                                                                                                                                                                                                                                                                         |
| <b>Transition Benefit</b> | To attract high calibre talent, it is customary market practice to compensate new employees for the loss of earned but unpaid variable remuneration with their previous employer. As a result, Mr Buckle was granted 100,962 shares on Listing with a face value of \$262,501 which will vest on 9 September 2021, subject to Mr Buckle remaining employed on that date. No other performance conditions apply as this award was made in lieu of unpaid variable remuneration Mr Buckle would have received from his previous employer. |

## DIRECTORS' REPORT (CONT)

Bryce Houghton ceased as Chief Financial Officer effective 12 August 2019.  
Mr Houghton's remuneration package is summarised as follows:

|                           |                                                                                                                                                                                                                                                                             |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Fixed remuneration</b> | Fixed annual remuneration of \$364,140 inclusive of superannuation contributions effective from 1 July 2019. Fixed remuneration is reviewed annually, but with no guarantee of an increase.                                                                                 |
| <b>Notice period</b>      | Under the Executive's Service Agreement, Mr Houghton's employment can be terminated by: <ul style="list-style-type: none"> <li>• the company giving him six months' notice of termination; or</li> <li>• Mr Houghton giving three months' notice of resignation.</li> </ul> |
| <b>STI</b>                | There is no minimum entitlement to an STI payment and the maximum STI opportunity is 25% of fixed annual remuneration for exceptional performance.                                                                                                                          |
| <b>LTI</b>                | No ESOP grant was made to Mr Houghton.                                                                                                                                                                                                                                      |

### 9 STATUTORY REMUNERATION

#### Remuneration of the Managing Director and Chief Financial Officer

The remuneration table below shows total remuneration expensed for accounting purposes for executive KMP in FY20.

**Table 12: Executive KMP statutory remuneration for full year to 30 June 2020**

| Year end<br>30 June                                         | Fixed <sup>1</sup> |                       | Variable             |                                   |                                |                                |                                         | 'Performance based' |                  |                  |
|-------------------------------------------------------------|--------------------|-----------------------|----------------------|-----------------------------------|--------------------------------|--------------------------------|-----------------------------------------|---------------------|------------------|------------------|
|                                                             | Cash salary<br>\$  | Super-annuation<br>\$ | Leave benefits<br>\$ | Other benefits <sup>2</sup><br>\$ | STI expense <sup>3</sup><br>\$ | LTI expense <sup>4</sup><br>\$ | One-off Equity Award <sup>5</sup><br>\$ | Total<br>\$         | STI <sup>6</sup> | LTI <sup>6</sup> |
| <b>Managing Director – Jake Dingle</b>                      |                    |                       |                      |                                   |                                |                                |                                         |                     |                  |                  |
| <b>2020</b>                                                 | 466,225            | 25,000                | 34,811               | –                                 | 167,761                        | 140,591                        | –                                       | 834,388             | 20%              | 17%              |
| <b>Chief Financial Officer – Gerard Buckle</b>              |                    |                       |                      |                                   |                                |                                |                                         |                     |                  |                  |
| <b>2020</b>                                                 | 233,681            | 15,752                | 10,415               | –                                 | 38,188                         | 39,366                         | 106,079                                 | 443,481             | 11%              | 12%              |
| <b>Chief Financial Officer – Bryce Houghton<sup>7</sup></b> |                    |                       |                      |                                   |                                |                                |                                         |                     |                  |                  |
| <b>2020</b>                                                 | 37,920             | 19,277                | 779                  | –                                 | –                              | –                              | –                                       | 57,976              | 0%               | 0%               |
| <b>Total</b>                                                | <b>737,826</b>     | <b>60,029</b>         | <b>46,005</b>        | <b>–</b>                          | <b>205,949</b>                 | <b>179,957</b>                 | <b>106,079</b>                          | <b>1,355,845</b>    | <b>17%</b>       | <b>15%</b>       |

1 Fixed remuneration may be allocated at the executive's discretion to cash, superannuation (subject to legislative minimums), annual and long service leave benefits, motor vehicles and certain other benefits.

2 No other benefits were provided during the year.

3 STI expense for FY20 plus amortisation of STI deferrals relating to prior year's grants.

4 ESOP grants are expensed over the vesting period at a valuation determined on grant date by a third party detailed in Table 14.

5 Total expense of the one-off equity grant made to Mr Buckle on 29 November 2019 as a sign on award to replace a portion of an incentive from his previous employer which he forfeited on joining Carbon Revolution. The face value of these shares was \$262,501 and they vest upon completion of two years' service.

6 STI and LTI as a percentage of total remuneration. For Mr Buckle the one off equity award has been removed to provide a better disclosure of the performance based components.

7 Mr Houghton ceased as CFO on 12 August 2019. His cash salary does not include a payment in lieu of six months' notice being \$177,865 or an ex-gratia payment of \$74,625 in lieu of his FY19STI.

## 10 DEFERRED STI RIGHTS

**Table 13: STI deferred rights for executive KMP**

|                                            | Number of STI deferred rights |                                         |        |        | Balance<br>30 June<br>2020 <sup>2</sup> |
|--------------------------------------------|-------------------------------|-----------------------------------------|--------|--------|-----------------------------------------|
|                                            | Balance<br>1 July<br>2019     | Granted as<br>Remuneration <sup>1</sup> | Vested | Lapsed |                                         |
| Managing Director –<br>Jake Dingle         | –                             | 35,006                                  | –      | –      | 35,006                                  |
| Chief Financial Officer –<br>Gerard Buckle | –                             | –                                       | –      | –      | –                                       |

1 Deferred rights relating to FY19 STI with grant date of 23 December 2019. The number of rights granted to each participant was calculated using the offer price at time of listing of \$2.60. These rights will vest on 16 October 2020 consistent with the STI deferral plan. The cash component of the FY19 STI was \$91,016 for Mr Dingle and was paid on 18 October 2019.

2 The closing balance of deferred rights at 30 June 2020 represents unvested rights for FY19 STI. Rights for the FY20 STI will be granted in November 2020. The number of Rights allocated is calculated by dividing the STI Awarded by the 20 day VWAP of Shares traded on ASX during the 20 trading day period following release of the full year financial results.

## 11 ESOP OPTIONS

**Table 14 Executive KMP ESOP Options**

A one-off ESOP equity award was made to reward executives for building the business, achieving listing and also represents the FY20 LTI Award with a service condition of three years.

|                                            | Number<br>of Options<br>Granted | Grant<br>Date | Vesting<br>Date | Expiry<br>Date | Exercise<br>Price | Fair Value<br>per Option<br>on Grant<br>Date <sup>1</sup> |
|--------------------------------------------|---------------------------------|---------------|-----------------|----------------|-------------------|-----------------------------------------------------------|
| Managing Director –<br>Jake Dingle         | 1,273,419                       | 23 Dec 2019   | 29 Nov 2022     | 29 Nov 2024    | \$2.60            | \$0.77                                                    |
| Chief Financial Officer<br>– Gerard Buckle | 356,557                         | 23 Dec 2019   | 29 Nov 2022     | 29 Nov 2024    | \$2.60            | \$0.77                                                    |

1 The fair value is provided by a third-party valuation at the time of grant and represents a grant value of \$980,533 to Mr Dingle and \$274,549 to Mr Buckle.

## DIRECTORS' REPORT (CONT)

**Table 15: Movement in Options**

|                                            | Number of Options         |                               |        |        | Balance<br>30 June<br>2020 |
|--------------------------------------------|---------------------------|-------------------------------|--------|--------|----------------------------|
|                                            | Balance<br>1 July<br>2019 | Granted<br>as<br>Remuneration | Vested | Lapsed |                            |
| Managing Director –<br>Jake Dingle         | –                         | 1,273,419                     | –      | –      | 1,273,419                  |
| Chief Financial Officer –<br>Gerard Buckle | –                         | 356,557                       | –      | –      | 356,557                    |

## 12 EXECUTIVE KMP SHAREHOLDINGS

**Table 16: Executive KMP shareholdings**

|                                                          | Number of Carbon Revolution shares <sup>1</sup> |                               |          |                        |          | Balance<br>30 June<br>2020 |
|----------------------------------------------------------|-------------------------------------------------|-------------------------------|----------|------------------------|----------|----------------------------|
|                                                          | Balance<br>29 November<br>2019 <sup>2</sup>     | Granted<br>as<br>Remuneration | Acquired | Sold or<br>transferred | Other    |                            |
| Managing Director –<br>Jake Dingle                       | 4,036,975                                       | –                             | –        | –                      | –        | 4,036,975                  |
| Chief Financial Officer –<br>Gerard Buckle <sup>3</sup>  | 120,193                                         | –                             | 13,334   | –                      | –        | 133,527                    |
| Chief Financial Officer –<br>Bryce Houghton <sup>4</sup> | –                                               | 80,000                        | –        | –                      | (80,000) | –                          |

1 Carbon Revolution shares in which the executive KMP has a beneficial interest, including shares held via their related parties and spousal shareholdings. The following escrow arrangements apply to these shares: Mr Dingle has 4,019,443 shares subject to mandatory escrow until 29 November 2021 and 17,532 shares subject to voluntary escrow until 1 December 2020; Mr Buckle has 19,231 shares subject to voluntary escrow until 1 December 2020.

2 Represents Carbon Revolution shares from listing

3 Includes 100,962 shares issued to Mr Buckle as part of his employment contract and which requires Mr Buckle to be in employment with the Company until 9th September 2021 in order these shares to fully vest. The minimum value of this award is nil and the maximum value will be determined by the share price of the Company.

4 Effective from 12 August 2019 Mr Houghton ceased from his role as CFO. The 'other' change does not represent a disposal of shares.

## NON-EXECUTIVE DIRECTOR REMUNERATION

### 13 POLICY AND ARRANGEMENTS

Non-Executive Directors receive a base fee in relation to their service as a Director of the Board, and an additional fee for membership of, or for chairing a Committee.

NEDs do not participate in the company's STI or LTI plans or receive any variable remuneration.

No retirement allowances are payable to NEDs other than statutory superannuation allowances.

To further align NEDs' interests with those of shareholders, the company expects all NEDs to acquire the equivalent of twelve months base fees in Carbon Revolution shares over a reasonable time period.

The fees are set with consideration to the fees paid in companies of a similar size and complexity.

The maximum amount of fees (including superannuation contributions) that can be paid to NEDs is capped by a pool approved by shareholders. The fee pool as approved by shareholders is currently \$800,000 per annum including superannuation. The current fee schedule is set out in the table below

**Table 17: Non-Executive Director (NED) fee schedule**

| <b>Role</b>                                        | <b>Annual fee for FY20<br/>(including super guarantee)</b> |
|----------------------------------------------------|------------------------------------------------------------|
| Chair base fees                                    | \$180,000                                                  |
| Other NED base fees                                | \$90,000                                                   |
| Chair of the Audit and Risk Committee              | An additional \$10,000                                     |
| Chair of the Remuneration and Nomination Committee | An additional \$10,000                                     |
| Committee memberships                              | An additional \$5,000 per committee                        |

Following benchmarking in FY20, the Board has determined not to increase NED fees for FY21.

## DIRECTORS' REPORT (CONT)

Table 18: Non-Executive Directors' fees paid

| Year ended 30 June 2020       |      | Directors' fees<br>\$ | Superannuation<br>\$ | Total<br>\$ |
|-------------------------------|------|-----------------------|----------------------|-------------|
| James Douglas (Chair)         | FY20 | 168,950               | 16,050               | 185,000     |
| Bruce Griffiths               | FY20 | 91,324                | 8,676                | 100,000     |
| Lucia Cade                    | FY20 | 86,758                | 8,242                | 95,000      |
| Dale McKee                    | FY20 | 91,324                | 8,676                | 100,000     |
| Mark Bernhard                 | FY20 | 86,758                | 8,242                | 95,000      |
| Peter Lewinsky                | FY20 | 86,758                | 8,242                | 95,000      |
| Total Non-Executive Directors | FY20 | 611,872               | 58,128               | 670,000     |

## 14 SHAREHOLDINGS

Table 19: Non-Executive Directors' shareholdings

| Number of Carbon Revolution shares <sup>1</sup> |                                             |                            |          |       |                            |
|-------------------------------------------------|---------------------------------------------|----------------------------|----------|-------|----------------------------|
|                                                 | Balance<br>29 November<br>2019 <sup>2</sup> | Granted as<br>remuneration | Acquired | Other | Balance<br>30 June<br>2020 |
| James Douglas                                   | 1,654,876                                   | –                          | 20,000   | –     | 1,674,876                  |
| Bruce Griffiths                                 | 204,799                                     | –                          | –        | –     | 204,799                    |
| Lucia Cade                                      | 32,877                                      | –                          | 20,000   | –     | 52,877                     |
| Dale McKee                                      | 66,624                                      | –                          | 20,000   | –     | 86,624                     |
| Mark Bernhard                                   | 38,462                                      | –                          | 20,000   | –     | 58,462                     |
| Peter Lewinsky                                  | 9,616                                       | –                          | 13,000   | –     | 22,616                     |

1 Carbon Revolution shares in which the Director has a beneficial interest, including via related parties and spousal shareholders.

2 Represents Carbon Revolution shares from listing with following escrow arrangements: Mr Douglas has 1,088,908 shares subject to mandatory escrow until 29 November 2021 and 565,968 shares subject to voluntary escrow until 1 December 2020; Mr Griffiths has 40,247 shares subject to mandatory escrow until 29 November 2021 and 164,552 shares subject to voluntary escrow until 1 December 2020; Ms Cade has 13,647 shares subject to mandatory escrow until 29 November 2021 and 19,230 shares subject to voluntary escrow until 1 December 2020; Mr McKee has 20,471 shares subject to mandatory escrow until 29 November 2021 and 46,153 shares subject to voluntary escrow until 1 December 2020; Mr Bernhard has 38,462 shares subject to voluntary escrow until 1 December 2020 and Mr Lewinsky has 9,616 shares subject to voluntary escrow until 1 December 2020

## 15 OPTIONS AND RIGHTS ISSUED DURING OR SINCE FY20

In compliance with section 300(1)(d) of the Corporations Act: a total of 5,093,687 options and 97,172 rights were issued during or since FY20. Of these, no options or rights were issued to Non-Executive Directors; 1,273,419 options and 35,006 rights were issued to the CEO as part of his remuneration; and 967,799 options and 12,775 were issued to other executive officers as part of their remuneration.

## 16 OTHER TRANSACTIONS WITH KMP

There were no other transactions, including loans between Carbon Revolution and KMP (including their related parties), during FY20.

## 4.4 OTHER MATTERS

### 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. There have been no significant changes in the nature of these activities during the year.

### Significant changes in the state of affairs

The financial position and performance of the Company was particularly affected by the following transactions and events during the reporting period:

- listing on the Australian Securities Exchange on 29 November 2019;
- the COVID-19 global pandemic;
- the \$25m placement and \$2.7m share purchase plan completed during March/April 2020.

### Events arising since the end of the reporting period

Apart from what is referred to in Note 6.10 of the financial statement, there have not been any matters or circumstances that have significantly affected, or may significantly affect, the results reported in the financial statements.

### Likely future developments

Taking into account the combination of new programs, growth from existing programs and the reduction in programs in run out, the company expects to deliver strong sales growth in FY21. The group expects to enter into new supply arrangements in FY21 with existing customers for new vehicle programs as well as new customers in Europe, North America and Asia. We expect that a number of new cars will be launched with our wheels.

Carbon Revolution enjoys a range of strategic growth opportunities. In addition to the scaling up of its Geelong manufacturing facility to materially increase production capacity, the company aims to leverage its technology into adjacent industries, such as the aerospace and transportation sectors, and will continue to invest in this during FY21.

## DIRECTORS' REPORT (CONT)

### 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 2020 financial year.

### Proceedings on behalf of the Group

No proceedings have been brought or intervened in on behalf of the Group, nor any application made under section 237 of the Corporations Act.

### Non-audit services and auditor independence

Deloitte continues in office as the Company's external auditor in accordance with section 327 of the Corporations Act. The Company has a policy on non-audit services that is intended to support the independence of the external auditor by regulating the provision of services by the external auditor.

The external auditor will not be engaged to perform any service that may impair or be perceived to impair the external auditor's judgement or independence.

The external auditor provided the following services to the Company during the reporting period.

|                                                                         | FY20<br>\$ |
|-------------------------------------------------------------------------|------------|
| <b>Audit services</b>                                                   |            |
| Audit and review of the financial report                                | 140,000    |
| <b>Other services</b>                                                   |            |
| Capital raising – IPO investigating accountant and vendor due diligence | 572,064    |
| <b>Member firm of Deloitte</b>                                          |            |
| Employee payroll service - Germany                                      | 2,755      |
|                                                                         | 714,819    |

The Board has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services during the reporting period is compatible with the general standard of independence for auditors imposed by the Corporations Act. The Directors are satisfied that the provision of non-audit services by Deloitte did not compromise the auditor independence requirements of the Corporations Act. This is because these services did not undermine the general principles of auditor independence including reviewing or auditing the auditor's own work (the payroll services provided were clearly insignificant to Deloitte and to these financial statements), acting in a management or decision making capacity, acting as an advocate or jointly sharing economic risks and rewards.

The Group's external auditor, Deloitte, has provided an independence declaration in accordance with section 307C of the Corporations Act, which is set out in section 4.5 and forms part 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. 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.

#### **Rounding of amounts**

The Company has applied the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' reports) Instrument 2016/191 to this report and amounts in the Financial Statements have been rounded to the nearest million dollars, unless stated otherwise.

## DIRECTORS' REPORT (CONT)

### 4.5 AUDITOR'S INDEPENDENCE DECLARATION

**Deloitte.**

Deloitte Touche Tohmatsu  
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24 August 2020

The Board of Directors  
Carbon Revolution Limited  
Building NR  
75 Pigdons Road  
Waurin Ponds VIC 3216

Dear Board Members,

**Auditor's Independence Declaration to 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 report of Carbon Revolution Limited for the year ended 30 June 2020, 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 faithfully



DELOITTE TOUCHE TOHMATSU



Stephen Roche  
Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

## 4.6 CORPORATE GOVERNANCE

The Board is committed to conducting the business of Carbon Revolution in accordance with high standards of corporate governance and with a view to creating and delivering value for Carbon Revolution's shareholders while taking into account the interests of other stakeholders, including employees, customers, suppliers and the wider community.

The Board considers that high standards of corporate governance are a cornerstone to creating long-term and sustainable shareholder value and fostering a culture of personal and corporate integrity and compliance which values ethical, lawful and responsible behaviour, accountability, fairness, transparency and respect for others.

Carbon Revolution's values are set out in more detail in the Code of Conduct which is available at the Corporate Governance section of the Company website (<https://investors.carbonrev.com/Investor-Centre/?page=corporate-governance>).

The Board is committed to fulfilling its corporate governance responsibilities in the best interests of Carbon Revolution and its stakeholders. Accordingly, the Board has created a framework for managing Carbon Revolution, including adopting relevant internal controls, risk management processes and corporate governance policies and practices that it believes are appropriate for Carbon Revolution's business and that are designed to promote the responsible management and conduct of Carbon Revolution.

Carbon Revolution's governance arrangements have been in place since listing on 29 November 2019. These arrangements are consistent with the 4th edition of the ASX Corporate Governance Principles and Recommendations ('ASX Recommendations'), unless otherwise indicated in the **Carbon Revolution 2020 Corporate Governance statement** released to the market on 25 August 2020 alongside this Annual Report. It is available on the Company website.

The Corporate Governance Statement was approved by the Board and is current as at 24 August 2020.

Copies of Carbon Revolution's key corporate governance policies and the charters for the Board and each of its committees are available at the Corporate Governance section of the Company website.

# SECTION 5/ FINANCIAL REPORT

FOR THE YEAR ENDED  
30 JUNE 2020

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# Consolidated statement of comprehensive income

For the Year Ended 30 June 2020

|                                                                       | Note     | 2020<br>\$'000   | 2019<br>\$'000  |
|-----------------------------------------------------------------------|----------|------------------|-----------------|
| Sale of wheels                                                        |          | 36,853           | 13,837          |
| Engineering services                                                  |          | 1,492            | 870             |
| Sale of tooling                                                       |          | 600              | 361             |
| <b>Revenue</b>                                                        | <b>2</b> | <b>38,945</b>    | <b>15,068</b>   |
| Cost of goods sold                                                    |          | (50,519)         | (22,534)        |
| <b>Gross margin</b>                                                   |          | <b>(11,574)</b>  | <b>(7,466)</b>  |
| Other income                                                          | 2.2      | 6,766            | 5,121           |
| Operational expenses                                                  |          | (1,567)          | (3,037)         |
| Research and development                                              |          | (4,813)          | (4,490)         |
| Administrative expenses                                               |          | (9,432)          | (6,379)         |
| Marketing expenses                                                    |          | (2,056)          | (1,671)         |
| Capital raising transaction costs                                     |          | (1,448)          | (7,684)         |
| Finance costs                                                         | 2.4      | (2,678)          | (2,154)         |
| Gain on revaluation of financial instruments                          |          | -                | 548             |
| Loss from anti-dilutive shares issued on IPO                          | 4.4      | (35,801)         | -               |
| Loss on conversion of financial instruments on IPO                    | 4.2      | (51,443)         | -               |
| <b>Loss before income tax expense</b>                                 |          | <b>(114,046)</b> | <b>(27,212)</b> |
| Income tax expense                                                    | 5        | -                | -               |
|                                                                       |          | <b>(114,046)</b> | <b>(27,212)</b> |
| <b>Other comprehensive income</b>                                     |          |                  |                 |
| <i>Items that may be reclassified subsequently to profit or loss:</i> |          |                  |                 |
| Foreign currency translation differences – foreign operations         |          | 7                | (94)            |
| <b>Other comprehensive income</b>                                     |          | <b>7</b>         | <b>(94)</b>     |
| <b>Total comprehensive loss for the year, net of tax</b>              |          | <b>(114,039)</b> | <b>(27,306)</b> |
| <b>Earnings per share</b>                                             |          |                  |                 |
| Basic                                                                 | 2.5      | (\$1.14)         | (\$0.53)        |
| Diluted                                                               | 2.5      | (\$1.14)         | (\$0.53)        |

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

# Consolidated statement of financial position

As at 30 June 2020

|                                              |      | 30 June 2020   | 30 June 2019    |
|----------------------------------------------|------|----------------|-----------------|
|                                              | Note | \$'000         | \$'000          |
| <b>Current assets</b>                        |      |                |                 |
| Cash and cash equivalents                    | 4.1  | 33,861         | 45,843          |
| Receivables                                  | 3.1  | 7,880          | 9,031           |
| Inventories                                  | 3.2  | 27,826         | 9,670           |
| Other current assets                         |      | 811            | 321             |
| <b>Total current assets</b>                  |      | <b>70,378</b>  | <b>64,865</b>   |
| <b>Non-current assets</b>                    |      |                |                 |
| Property, plant and equipment                | 3.3  | 44,036         | 31,536          |
| Right-of-use assets                          | 3.4  | 9,290          | -               |
| Intangible assets                            | 3.5  | 17,947         | 7,886           |
| <b>Total non-current assets</b>              |      | <b>71,273</b>  | <b>39,422</b>   |
| <b>Total assets</b>                          |      | <b>141,651</b> | <b>104,287</b>  |
| <b>Current liabilities</b>                   |      |                |                 |
| Payables                                     | 3.6  | 16,962         | 11,695          |
| Borrowings                                   | 4.2  | 18,674         | 74,032          |
| Lease liability                              | 3.4  | 979            | -               |
| Deferred income                              | 3.7  | 798            | 608             |
| Provisions                                   | 3.8  | 2,853          | 2,521           |
| <b>Total current liabilities</b>             |      | <b>40,266</b>  | <b>88,856</b>   |
| <b>Non-current liabilities</b>               |      |                |                 |
| Borrowings                                   | 4.2  | -              | 25,500          |
| Lease liability                              | 3.4  | 8,540          | -               |
| Deferred income                              | 3.7  | 3,416          | 3,160           |
| Provisions                                   | 3.8  | 519            | 180             |
| <b>Total non-current liabilities</b>         |      | <b>12,475</b>  | <b>28,840</b>   |
| <b>Total liabilities</b>                     |      | <b>52,741</b>  | <b>117,696</b>  |
| <b>Net (liabilities) / assets</b>            |      | <b>88,910</b>  | <b>(13,409)</b> |
| <b>(Deficiency in equity) / Equity</b>       |      |                |                 |
| Contributed equity                           | 4.4  | 291,226        | 75,897          |
| Reserves                                     | 4.6  | 924            | (477)           |
| Accumulated losses                           |      | (203,240)      | (88,829)        |
| <b>Total (deficiency in equity) / Equity</b> |      | <b>88,910</b>  | <b>(13,409)</b> |

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

# Consolidated statement of changes in equity

For the Year Ended 30 June 2020

|                                            | Contributed equity | Share buyback reserve | Share based payment reserve | Accumulated losses | Foreign currency translation reserve | Total equity |
|--------------------------------------------|--------------------|-----------------------|-----------------------------|--------------------|--------------------------------------|--------------|
| Note                                       | \$'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 full year       | -                  | -                     | -                           | (27,212)           | -                                    | (27,212)     |
| Other comprehensive loss for the full year | -                  | -                     | -                           | -                  | (94)                                 | (94)         |
| Total comprehensive loss for the full year | -                  | -                     | -                           | (27,212)           | (94)                                 | (27,306)     |

## 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 30 June 2019                                 |     | 75,897 | (311) | - | (88,829)  | (166) | (13,409)  |
| Balance as at 30 June 2019                                 |     | 75,897 | (311) | - | (88,829)  | (166) | (13,409)  |
| Change in accounting policy                                | 6.8 | -      | -     | - | (365)     | -     | (365)     |
| Restated total equity at 1 July 2019                       |     | 75,897 | (311) | - | (89,194)  | (166) | (13,774)  |
| Net loss after tax for the full year                       |     | -      | -     | - | (114,046) | -     | (114,046) |
| Other comprehensive loss for the full year                 |     | -      | -     | - | -         | 7     | 7         |
| Total comprehensive loss for the full year                 |     | -      | -     | - | (114,046) | 7     | (114,039) |

## Transactions with owners in their capacity as owners

|                                                             |     |         |       |       |           |       |         |
|-------------------------------------------------------------|-----|---------|-------|-------|-----------|-------|---------|
| Issue of share capital                                      | 4.4 | 57,730  | -     | -     | -         | -     | 57,730  |
| Share-based payments                                        | 4.4 | 296     | -     | 1,394 | -         | -     | 1,690   |
| Share issue costs                                           | 4.4 | (3,932) | -     | -     | -         | -     | (3,932) |
| Issue of ordinary shares on conversion of convertible notes | 4.4 | 125,434 | -     | -     | -         | -     | 125,434 |
| Anti-dilutive shares issued on IPO                          | 4.4 | 35,801  | -     | -     | -         | -     | 35,801  |
| Total transactions with owners in their capacity as owners  |     | 215,329 | -     | 1,394 | -         | -     | 216,723 |
| Balance as at 30 June 2020                                  |     | 291,226 | (311) | 1,394 | (203,240) | (159) | 88,910  |

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

# Consolidated statement of cash flows

For the Year Ended 30 June 2020

|                                                               | Note  | 2020<br>\$'000  | 2019<br>\$'000  |
|---------------------------------------------------------------|-------|-----------------|-----------------|
| <b>Cash flow from operating activities</b>                    |       |                 |                 |
| Receipts from customers                                       |       | 37,094          | 13,151          |
| Receipt of grants and research and development incentives     |       | 7,627           | 4,367           |
| Payments to suppliers and employees                           |       | (73,752)        | (36,140)        |
| Interest received                                             |       | 578             | 109             |
| Finance costs                                                 |       | (2,522)         | (1,398)         |
| <b>Net cash used in operating activities</b>                  | 4.1.1 | <b>(30,975)</b> | <b>(19,911)</b> |
| <b>Cash flow from investing activities</b>                    |       |                 |                 |
| Payments for property, plant and equipment                    |       | (14,633)        | (14,901)        |
| Payments for intangible assets                                | 3.5   | (12,289)        | (7,846)         |
| <b>Net cash used in investing activities</b>                  |       | <b>(26,922)</b> | <b>(22,747)</b> |
| <b>Cash flow from financing activities</b>                    |       |                 |                 |
| Proceeds from convertible notes                               |       | -               | 73,122          |
| Capital raising transaction costs                             |       | (6,518)         | (6,341)         |
| Proceeds from third party borrowings                          |       | 881             | 7,702           |
| Repayment of third-party borrowings                           |       | (746)           | (161)           |
| Repayment of related party borrowings                         | 4.2   | (5,000)         | (5,000)         |
| Proceeds from share issues                                    | 4.4   | 57,730          | -               |
| Repayment of lease liability                                  |       | (629)           | -               |
| <b>Net cash provided by financing activities</b>              |       | <b>45,718</b>   | <b>69,322</b>   |
| Net increase / (decrease) in cash held                        |       | (12,179)        | 26,664          |
| Cash at beginning of financial year                           |       | 45,843          | 19,179          |
| Effects of exchange rate changes on cash and cash equivalents |       | 197             | -               |
| <b>Cash at end of financial year</b>                          |       | <b>33,861</b>   | <b>45,843</b>   |

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

# Notes to the Financial Statements

For the Year Ended 30 June 2020

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# Notes to the Financial Statements (cont)

## 1 / BASIS OF PREPARATION

### 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 a listed public company limited by shares, incorporated and domiciled in Australia. Its principal 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  
Waurin Ponds VIC 3216

### 1.2. Basis of preparation

The Group financial statements are general purpose financial statements which:

- Have been prepared in accordance with the Corporations Act, Australian accounting standards, and other authoritative pronouncements of the Australian Accounting Standards Board;
- Have adopted all accounting policies in accordance with Australian accounting standards, and where a standard permits a choice in accounting policy, the policy adopted by the Group has been disclosed in these financial statements;
- Do not early adopt any accounting standards or interpretations that have been issued or amended but are not yet effective;
- Comply with International financial reporting standards (‘IFRS’) as issued by the International Accounting Standards Board (‘IASB’);
- Have been prepared for a for profit entity under the historical cost convention, 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.;
- Are presented in Australian dollars, which is the Group’s functional and presentation currency;
- Have been rounded to the nearest million dollars, unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Director’s Reports) Instrument 2016/191.

### 1.3. Going concern

The financial statements have been prepared on a going concern basis.

Carbon Revolution is an advanced technology manufacturing business which is in the process of industrialising its production processes. At this pre-profitability stage of Carbon Revolution's business lifecycle, it is essential that it has sufficient capital to fund ongoing research and development on product, material and process technologies and invest in the industrialisation equipment required to achieve profitability.

While the Group incurred a loss after tax of \$114.0 (\$26.8 million before losses related to the IPO of \$87.2 million) (2019: \$27.2 million) and generated negative cashflows from operating activities of \$30.9 million (2019 \$19.9 million), as at 30 June 2020 it is in a net asset position and has cash balances of \$33.9 million (2019 \$45.8 million).

Since balance date the Group is well progressed with arrangements to repay the \$13 million Ronal AG term loan. Key terms and conditions for a three year term loan facility with Export Finance Australia (EFA) have been agreed and this arrangement is now being documented. On the basis of detailed cash flow forecasts, which have allowed for the impacts of COVID-19, the Group believes sufficient, appropriate funding options are available to it and therefore has prepared the financial statements on a going concern basis.

### 1.4. Basis of consolidation

The consolidated financial statements are presented in Australian dollars which is also the functional currency of the parent entity and its Australian subsidiaries.

#### Controlled entities

The consolidated financial statements comprise the financial statements of the parent and of its 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.

#### Foreign currency translation

The Group has one overseas subsidiary in the United States of America ("US") and one in the United Kingdom ("UK"). The UK subsidiary was dormant during the financial year.

## Notes to the Financial Statements (cont)

The results and financial position of all of the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the reporting date;
- income and expenses are translated at average exchange rates throughout the course of the year (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve, a separate component of equity.

### 1.5. 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.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are included in the following notes:

Note 3.2 Inventories

Note 3.4 Leases

Note 3.5 Intangible assets

Note 5.1 Income tax.

### 1.6. Goods and Services Tax (GST)

Goods and Services Tax (GST) is recognised in these financial statements as follows:

1. Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority;
2. Receivables and payables are stated inclusive of the amount of GST receivable or payable;
3. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated balance sheet;
4. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing and financing activities are presented as operating cash flows; and
5. Commitments are disclosed net of GST.

## 2 / OPERATING PERFORMANCE

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers, 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.

### 2.1 Revenue

|                                              | 2020<br>\$'000 | 2019<br>\$'000 |
|----------------------------------------------|----------------|----------------|
| <b>Revenue recognised at a point in time</b> |                |                |
| Sale of wheels                               | 36,853         | 13,837         |
| Sale of tooling                              | 600            | 361            |
| <b>Revenue recognised over time</b>          |                |                |
| Engineering services                         | 1,492          | 870            |
| <b>Total revenue</b>                         | <b>38,945</b>  | <b>15,068</b>  |

### 2.2 Other income

|                           | 2020<br>\$'000 | 2019<br>\$'000 |
|---------------------------|----------------|----------------|
| Government grants         | 6,048          | 4,936          |
| Interest income           | 520            | 169            |
| Foreign exchange gain     | 107            | 7              |
| Other income              | 91             | 9              |
| <b>Total other income</b> | <b>6,766</b>   | <b>5,121</b>   |

#### 2.2.1 Information about revenue and other income

##### Sale of goods

Revenue from the sale of Carbon Revolution wheels and tooling is based on the contracted sales price. Revenue is recognised at a point in time, being when the company has transferred to the buyer the significant risks and rewards of ownership of the wheels or tooling, in accordance with the relevant customer contracted international commercial terms.

Under the Group's standard contract terms, end customers have a right to claim for faulty wheels within a specified warranty period. While a warranty provision and corresponding adjustment to revenue is recorded at the time of the product sale, historically, Carbon Revolution has not experienced warranty claims.

## Notes to the Financial Statements (cont)

### Rendering of services

Revenue from a contract to provide engineering, design and testing services is recognised over time based on the stage of completion of the contract. The Directors have assessed that the stage of completion determined as the proportion of the milestones achieved under the customer contract is an appropriate measure of progress towards complete satisfaction of these performance obligations under AASB 15.

### Interest income

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

### 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 have been 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.

### Other income

Other income is recognised on the satisfaction of the performance obligations.

## 2.3 Segments

The Group operates in one business segment, being the manufacture and sale of carbon fibre wheels. 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. While revenue is almost entirely international, all non-current assets are domestic.

Included in revenues, are revenues of approximately \$33 million (2019: \$13 million) which arose from sales to the Group's two major international customers, representing more than 90% of the Group's revenue. No other single customers contributed 10 per cent or more to the Group's revenue in either 2019 or 2020.

Revenue and non-current assets by geography comprise:

|                           | 2020<br>\$'000 | 2019<br>\$'000 |
|---------------------------|----------------|----------------|
| <b>Revenue</b>            |                |                |
| International             | 38,945         | 15,068         |
| Domestic                  | -              | -              |
|                           | 38,945         | 15,068         |
| <b>Non-current assets</b> |                |                |
| International             | -              | -              |
| Domestic                  | 71,273         | 39,422         |
|                           | 71,273         | 39,422         |

## 2.4 Expenses

|                                              | 2020<br>\$'000 | 2019<br>\$'000 |
|----------------------------------------------|----------------|----------------|
| <b>Finance costs</b>                         |                |                |
| Interest on Ronal AG loan                    | 1,699          | 1,624          |
| Interest on insurance premium facility       | 12             | 6              |
| Facility costs                               | 450            | 523            |
| Interest on loan                             | 517            | -              |
|                                              | 2,678          | 2,154          |
| <b>Salaries and employee benefit expense</b> |                |                |
| Wages and salaries                           | 26,624         | 16,664         |
| Post-employment benefits                     | 2,058          | 1,247          |
| Share-based payments expense                 | 932            | 300            |
|                                              | 29,614         | 18,211         |
| <b>Depreciation and amortisation</b>         |                |                |
| Property, plant and equipment                | 4,559          | 2,772          |
| Right of use assets                          | 724            | -              |
| Capitalised development costs                | 2,149          | 468            |
| Patents and trademarks                       | 79             | 56             |
|                                              | 7,511          | 3,296          |

## Notes to the Financial Statements (cont)

### 2.4.1 Information about expenses

#### Finance costs

Finance costs are expensed in the period in which they occur.

#### Share based payments

The Group operates several employee incentive schemes to remunerate employees, including senior executives, in the form of share-based payments. Refer to note 4.5 for information on share-based payments.

#### 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.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option or if the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, the right-of-use asset is depreciated over the underlying asset's useful life.

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

| <b>Class of fixed asset</b>       | <b>Depreciation period</b> | <b>Depreciation method</b> |
|-----------------------------------|----------------------------|----------------------------|
| Leasehold improvements            | 20 years                   | Straight line              |
| Manufacturing plant and equipment | 7 to 10 years              | Diminishing value          |
| Tooling                           | 5 years                    | Diminishing value          |
| Other equipment                   | 3 to 5 years               | Diminishing value          |

#### Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Refer to note 3.5 Intangible assets for further information in relation to capitalised development costs, patents and trademarks.

## 2.5 Earnings per share

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

| <b>Earnings</b>                                                               | <b>2020<br/>\$'000</b> | <b>2019<br/>\$'000</b> |
|-------------------------------------------------------------------------------|------------------------|------------------------|
| Earnings for the purposes of basic earnings per share being loss for the year | (114,046)              | (27,212)               |
| Effect of dilutive potential ordinary shares                                  | -                      | -                      |
| Earnings for the purposes of diluted earnings per share                       | (114,046)              | (27,212)               |

| <b>Number of shares</b>                                                                 | <b>2020<br/>No. '000</b> | <b>2019<br/>No. '000</b> |
|-----------------------------------------------------------------------------------------|--------------------------|--------------------------|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 100,296                  | 50,881                   |
| Effect of dilutive potential ordinary shares                                            | -                        | -                        |
|                                                                                         | 100,296                  | 50,881                   |

## 3 / OPERATING ASSETS AND LIABILITIES

This section shows the assets used to generate the Group's revenue and the liabilities incurred. Assets and liabilities relating to the Group's financing activities are disclosed in note 4. Deferred tax assets and liabilities are disclosed in note 5.

### 3.1 Receivables

|                                                                 | <b>2020<br/>\$'000</b> | <b>2019<br/>\$'000</b> |
|-----------------------------------------------------------------|------------------------|------------------------|
| <b>Trade receivables</b>                                        |                        |                        |
| Not past due                                                    | 5,943                  | 4,008                  |
| Past due 1 – 30 days                                            | 639                    | 179                    |
| Past due 31 – 90 days                                           | 120                    | 463                    |
| Past due 90 days and over                                       | 41                     | -                      |
|                                                                 | <b>6,743</b>           | <b>4,650</b>           |
| Allowance for impairment losses                                 | -                      | -                      |
| <b>Trade receivables net of allowance for impairment losses</b> | <b>6,743</b>           | <b>4,650</b>           |
| Other receivables                                               | 78                     | 3,308                  |
| GST recoverable                                                 | 1,059                  | 1,073                  |
| <b>Trade and other receivables</b>                              | <b>7,880</b>           | <b>9,031</b>           |

## Notes to the Financial Statements (cont)

### 3.1.1 Information about receivables

Trade receivables are measured at the transaction price in accordance with AASB 15. Receivables are measured at amortised cost using the effective interest method, less any impairment. Other receivables relate to research and development tax incentive refunds due to the Group.

The Group makes use of the simplified approach in accounting for expected credit losses related to the trade and other receivables and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses which are reviewed at each reporting period. Debts that are known to be uncollectible are written off when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

See note 4.3.2 regarding credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables. There is currently an immaterial provision for expected credit losses which has been determined by management in consideration of historically collected debt as well expected collectability of customers as at 30 June 2020.

In reaching this view on expected credit losses and having regard to the COVID-19 environment management has performed a review on an individual customer basis including monitoring customer performance and timing of payments. 90% of sales are from two major international customers, neither are seen to have any risk of credit loss on the basis of viability and transaction history.

### 3.2 Inventories

|                                                                  | 2020<br>\$'000 | 2019<br>\$'000 |
|------------------------------------------------------------------|----------------|----------------|
| <b>Current</b>                                                   |                |                |
| Raw materials                                                    | 8,209          | 5,954          |
| Work in progress                                                 | 15,282         | 5,092          |
| Finished goods                                                   | 2,653          | 723            |
| Finished goods in transit                                        | 3,816          | -              |
| Consumables and spare parts                                      | 2,753          | 877            |
| Provision for trial wheels, obsolescence and scrap               | (4,887)        | (2,976)        |
| <b>Inventories at the lower of cost and net realisable value</b> | <b>27,826</b>  | <b>9,670</b>   |

### **3.2.1 Information about inventories and significant estimates**

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 against actual costs quarterly;
- Finished goods and work-in-progress – cost of direct materials, labour, outsourced processing costs and a proportion of manufacturing overheads based on normal operating capacity but excluding finance costs. Includes inventory in transit reflecting the relevant customer incoterm;
- 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 provisions include an allowance for trial wheels, obsolete stock and production scrap.

#### **Amounts recognised in profit or loss**

Inventories recognised as an expense during the year ended 30 June 2020 amounted to \$50.5 million (2019: \$22.5 million). These were included in cost of goods sold.

During the year \$4.2 million (2019: \$0.7 million) of obsolescence and scrap were recognised as an expense and included in 'cost of goods sold' in the consolidated statement of profit or loss and other comprehensive income.

#### **Critical accounting estimates and judgement**

Determining the Net Realisable Value of work in process requires assessments of costs to complete and ship and judgements about ultimate customer demand levels. This assessment is made more complex as constantly evolving production processes and emerging technologies significantly affect the cost of production and customer appeal.

Management's judgement is applied in determining the provision for trial wheels, obsolescence and scrap. All trial wheels are fully expensed as they are manufactured. All after-market wheels have also been expensed in full on the basis that this sales channel is not currently a strategic focus of Carbon Revolution.

Scrapped wheel provisioning has been calculated using historical data as well as management experience in determining an adequate provision. Carbon Revolution uses a traceability system for all wheels which is used to identify and isolate wheels at risk of non-recoverability. Management judgement is applied to assign a probability of recovery to individual groups of wheels.

## Notes to the Financial Statements (cont)

### 3.3 Property, plant and equipment

|                               | Capital works<br>in progress | Leasehold<br>improvements | Manufacturing<br>equipment | Tooling      | Other<br>equipment | Total         |
|-------------------------------|------------------------------|---------------------------|----------------------------|--------------|--------------------|---------------|
|                               | \$'000                       | \$'000                    | \$'000                     | \$'000       | \$'000             | \$'000        |
| Gross cost                    | 8,979                        | 5,011                     | 17,086                     | 8,046        | 1,339              | 40,461        |
| Less accumulated depreciation | -                            | (554)                     | (4,306)                    | (3,602)      | (463)              | (8,925)       |
| <b>At 30 June 2019</b>        | <b>8,979</b>                 | <b>4,457</b>              | <b>12,780</b>              | <b>4,444</b> | <b>876</b>         | <b>31,536</b> |
| Gross cost                    | 10,521                       | 5,549                     | 28,555                     | 11,017       | 1,810              | 57,452        |
| Less accumulated depreciation | -                            | (810)                     | (6,789)                    | (5,137)      | (680)              | (13,416)      |
| <b>At 30 June 2020</b>        | <b>10,521</b>                | <b>4,739</b>              | <b>21,766</b>              | <b>5,880</b> | <b>1,130</b>       | <b>44,036</b> |

#### Movement in carrying amounts

|                                    |               |              |               |              |              |               |
|------------------------------------|---------------|--------------|---------------|--------------|--------------|---------------|
| Balance at 1 July 2018             | 4,966         | 2,271        | 7,390         | 2,918        | 486          | 18,031        |
| Additions                          | 16,504        | -            | -             | -            | -            | 16,504        |
| Transfer into/(out of) capital WIP | (12,345)      | 2,338        | 6,824         | 2,633        | 550          | -             |
| Depreciation expense               | -             | (152)        | (1,421)       | (1,043)      | (156)        | (2,772)       |
| Disposals/write-offs               | (146)         | -            | (13)          | (64)         | (4)          | (227)         |
| <b>Balance at 30 June 2019</b>     | <b>8,979</b>  | <b>4,457</b> | <b>12,780</b> | <b>4,444</b> | <b>876</b>   | <b>31,536</b> |
| Additions                          | 17,516        | -            | 378           | -            | -            | 17,894        |
| Transfer into/(out of) capital WIP | (15,183)      | 539          | 11,178        | 2,973        | 493          | -             |
| Write-offs from WIP                | (787)         | -            | -             | -            | -            | (787)         |
| Depreciation expense               | -             | (257)        | (2,535)       | (1,537)      | (230)        | (4,559)       |
| Disposals/write-offs               | (4)           | -            | (35)          | -            | (9)          | (48)          |
| <b>Balance at 30 June 2020</b>     | <b>10,521</b> | <b>4,739</b> | <b>21,766</b> | <b>5,880</b> | <b>1,130</b> | <b>44,036</b> |

#### 3.3.1 Information about how the Group accounts for property, plant and equipment

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.

Capital works in progress includes leasehold improvements, manufacturing equipment, tooling and other equipment that are under construction as at the reporting date.

The Group has capital commitments of \$3.651 million for manufacturing equipment as at 30 June 2020 (2019: \$2.688 million).

### 3.4 Leases

This note provides information for leases where the Group is the lessee. Refer to note 6.9 for the impact of change in accounting policies.

Amounts recognised in the balance sheet

|                            | 2020<br>\$'000 |
|----------------------------|----------------|
| <b>Right-of-use assets</b> |                |
| Property                   | 8,470          |
| Equipment                  | 820            |
|                            | <b>9,290</b>   |
| <b>Lease liabilities</b>   |                |
| Current                    | 979            |
| Non-current                | 8,540          |
|                            | <b>9,519</b>   |

Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

|                                                                                                     | 2020<br>\$'000 |
|-----------------------------------------------------------------------------------------------------|----------------|
| <b>Depreciation charge or right of use assets</b>                                                   |                |
| Property                                                                                            | 91             |
| Equipment                                                                                           | 633            |
|                                                                                                     | <b>724</b>     |
| Interest expense (included in finance cost)                                                         | 517            |
| Expense relating to short-term leases (included in costs of goods sold and administrative expenses) | 87             |

## Notes to the Financial Statements (cont)

### *3.4.1 Information about how the Group accounts for leases*

The Group has two leases. One is for the head office and the other is for equipment. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. In prior years leases were classified as operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the lease asset is available for use by the Group.

#### **Right-of-use assets**

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any initial direct costs and restoration costs reduced by any lease incentives received. 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 critical accounting estimate.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option or if the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less.

#### **Lease liabilities**

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.

Refer to note 4.3.3 for maturity analysis relating to lease liabilities.

Expense relating to low value leases (included in administrative expenses) for year ending 30 June 2020 was \$0.087 million.

#### **Critical accounting estimates and judgement**

Management's judgement is applied in determining whether any impairment is required on the right of use assets. Management have used judgement in determining whether the option of the property lease will be extended. An estimate has been made in calculating the incremental borrowing rate.

### 3.5 Intangible assets

|                                | Development costs | Patents and trademarks | Total         |
|--------------------------------|-------------------|------------------------|---------------|
|                                | \$'000            | \$'000                 | \$'000        |
| Gross cost                     | 7,732             | 867                    | 8,599         |
| Less accumulated amortisation  | (468)             | (245)                  | (713)         |
| <b>At 30 June 2019</b>         | <b>7,264</b>      | <b>622</b>             | <b>7,886</b>  |
| Gross cost                     | 19,738            | 1,150                  | 20,888        |
| Less accumulation amortisation | (2,617)           | (324)                  | (2,941)       |
| <b>At 30 June 2020</b>         | <b>17,121</b>     | <b>826</b>             | <b>17,947</b> |

#### Movement in carrying amounts

|                                |               |            |               |
|--------------------------------|---------------|------------|---------------|
| Balance at 1 July 2018         | -             | 564        | 564           |
| Additions                      | 7,732         | 114        | 7,846         |
| Amortisation                   | (468)         | (56)       | (524)         |
| <b>Balance at 30 June 2019</b> | <b>7,264</b>  | <b>622</b> | <b>7,886</b>  |
| Additions                      | 12,006        | 283        | 12,289        |
| Amortisation                   | (2,149)       | (79)       | (2,228)       |
| <b>Balance at 30 June 2020</b> | <b>17,121</b> | <b>826</b> | <b>17,947</b> |

#### 3.5.1 Information about intangible assets and significant estimates

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 is recognised in profit or loss. The Group has no intangible assets with an indefinite life.

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.

#### Capitalised development costs

Research costs are recognised as an expense in the period in which they are incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised only if it is probable that the project will be a success considering its commercial and technical feasibility, sufficient resources exist and the Group has the intention to complete the project and is able to use or sell the asset and costs can be measured reliably.

## Notes to the Financial Statements (cont)

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 (5 year period). Amortisation commences when the intangible asset is available for use.

### Patents and trademarks

The Group has paid to acquire patents and trademarks and these are recorded at cost. Patents are amortised over their useful life of 15 years.

### Critical accounting estimates and judgements

The Group has no indefinite life assets and therefore is only required to perform an impairment test in case of any impairment indicators. The impairment testing is performed at a cash generating unit level, being the company itself, due to the unique nature of the business.

Management uses Fair Value Less Costs to Sell (FVLCTS) in estimating recoverable amount on the basis that there are strategic initiatives, as referred to in the Prospectus and the OFR, including the industrialisation of production, which require future capital expenditure that is important in realising the value of assets. In assessing FVLCTS, management has had due regard for the impacts of COVID-19 on the business, including the impact on industrialisation of production and the expected timeframe to meet revenue and EBITDA milestones as a result. The recoverable amount of assets exceed carrying amount and therefore no impairment charge has been recognised during the year.

### 3.6 Payables

| <b>Current</b>               | <b>2020</b>   | <b>2019</b>   |
|------------------------------|---------------|---------------|
| <i>Unsecured liabilities</i> | <b>\$'000</b> | <b>\$'000</b> |
| Trade payables               | 12,928        | 6,462         |
| Accruals                     | 2,780         | 4,474         |
| Interest accrued             | 978           | 732           |
| Other payables               | 275           | 27            |
|                              | 16,962        | 11,695        |

#### 3.6.1 Information about payables

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's terms.

Payables includes interest payable on borrowings.

For further policy detail regarding the Group's liquidity risk management processes refer to note 4.3.3.

### 3.7 Deferred income

Deferred income consists of 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 revenue recognition policy, refer to note 2.1.1

|                                             | 2020<br>\$'000 | 2019<br>\$'000 |
|---------------------------------------------|----------------|----------------|
| Balance as at 1 July                        | 3,768          | 3,094          |
| Received during the year                    | 2,939          | 1,273          |
| Released to the statement of profit or loss | (2,493)        | (599)          |
| Balance as at 30 June                       | 4,214          | 3,768          |
| Current                                     | 798            | 608            |
| Non-current                                 | 3,416          | 3,160          |
|                                             | 4,214          | 3,768          |

### 3.8 Provisions

|                 | Employee<br>benefits<br>\$'000 | Make good<br>provision<br>\$'000 | Warranty<br>claims<br>\$'000 | Onerous<br>contracts<br>\$'000 | Total<br>\$'000 |
|-----------------|--------------------------------|----------------------------------|------------------------------|--------------------------------|-----------------|
| Current         | 1,326                          | -                                | 1,093                        | 102                            | 2,521           |
| Non-current     | 180                            | -                                | -                            | -                              | 180             |
| At 30 June 2019 | 1,506                          | -                                | 1,093                        | 102                            | 2,701           |
| Current         | 2,124                          | -                                | 729                          | -                              | 2,853           |
| Non-current     | 316                            | 203                              | -                            | -                              | 519             |
| At 30 June 2020 | 2,440                          | 203                              | 729                          | -                              | 3,372           |

#### Movement in carrying amounts

|                                            |       |     |       |       |       |
|--------------------------------------------|-------|-----|-------|-------|-------|
| Balance at 1 July 2018                     | 1,144 | -   | 583   | -     | 1,727 |
| Provided for during the year               | 1,038 | -   | 510   | 102   | 1,650 |
| Utilised during the year                   | (676) | -   | -     | -     | (676) |
| Balance at 30 June 2019                    | 1,506 | -   | 1,093 | 102   | 2,701 |
| Provided for/(released during)<br>the year | 1,706 | 203 | (364) | (102) | 1,443 |
| Utilised during the year                   | (772) | -   | -     | -     | (772) |
| Balance at 30 June 2020                    | 2,440 | 203 | 729   | -     | 3,372 |

## Notes to the Financial Statements (cont)

### *3.8.1 Information about individual provisions and significant estimates*

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.

#### **Make good provision**

Carbon Revolution is required to restore its leased premises to their original condition at the end of the lease term. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease and the useful life of the assets.

#### **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.

#### **Critical accounting estimates and judgements**

Management's judgement is applied in determining the key assumptions used in the calculation of the provision for warranty claims at reporting date, being future % of wheel sales subject to warranty claims and future costs of honouring the warranty for those claims.

#### **Onerous contracts**

Provisions for onerous contracts are recognised when the tooling in progress is expected to be sold to the customer below cost. The onerous provision estimate on tooling exposure is reassessed annually. This amount was released in 2020 and no provision is required at 30 June 2020.

#### **Employee provisions**

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 superannuation funds are recognised as an expense when employees have rendered service entitling them to the contributions.

## **4 / CAPITAL STRUCTURE AND FINANCING**

This section outlines how the Group manages its capital structure, 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 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 values.

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 in operating cash flows.

#### ***4.1.1 Notes to the consolidated statement of cash flow***

For information on cash flows relating to financing activity see note 4.4

## Notes to the Financial Statements (cont)

### Reconciliation of profit for the period to cash flows from operating activities

|                                                              | Note | 2020<br>\$'000 | 2019<br>\$'000 |
|--------------------------------------------------------------|------|----------------|----------------|
| Loss after income tax                                        |      | (114,046)      | (27,212)       |
| <b>Non cash items from ordinary activities</b>               |      |                |                |
| Depreciation and amortisation                                |      | 7,511          | 3,296          |
| Share based payment expenses                                 |      | 1,680          | 83             |
| Reduction of borrowings from achievement of grant milestones |      | (2,000)        | -              |
| Movement in inventory provision                              |      | (1,939)        | (717)          |
| Write off of property, plant and equipment                   |      | (273)          | 182            |
| Gain on revaluation of financial instruments                 |      | -              | (548)          |
| <b>Non cash losses related to IPO</b>                        |      |                |                |
| Anti-dilutive shares issued on IPO                           | 4.4  | 35,801         | -              |
| Loss on conversion of financial instruments on IPO           | 4.2  | 51,443         | -              |
| Capital raising transaction costs                            |      | 1,448          | 7,684          |
| <b>Changes in assets and liabilities</b>                     |      |                |                |
| <i>(Increase)/decrease in assets:</i>                        |      |                |                |
| - Receivables                                                |      | 1,151          | (3,820)        |
| - Inventories                                                |      | (16,598)       | (4,940)        |
| - Other assets                                               |      | (490)          | (33)           |
| <i>Increase/(decrease) in liabilities:</i>                   |      |                |                |
| - Payables                                                   |      | 4,220          | 4,466          |
| - Deferred income                                            |      | 446            | 673            |
| - Provisions                                                 |      | 671            | 975            |
| Cash used in operating activities                            |      | (30,975)       | (19,911)       |

### 4.2 Borrowings and other financial liabilities

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

|                           | Interest<br>rate % | Maturity    | 2020<br>\$'000 | 2019<br>\$'000 |
|---------------------------|--------------------|-------------|----------------|----------------|
| <b>Current borrowings</b> |                    |             |                |                |
| <i>Unsecured</i>          |                    |             |                |                |
| Insurance premium funding | 5%                 | August 2020 | 174            | 41             |
| Loan                      | 10.9%              | June 2021   | 5,500          | -              |
| Ronal AG loan facility    | 10.0%              | June 2021   | 13,000         | -              |
| Convertible notes         | 10.0%              | May 2020    | -              | 73,991         |
|                           |                    |             | 18,674         | 74,032         |

#### **Non-current borrowings**

##### *Unsecured*

|                        |       |           |   |        |
|------------------------|-------|-----------|---|--------|
| Loan                   | 6.0%  | June 2021 | - | 7,500  |
| Ronal AG loan facility | 10.0% | June 2021 | - | 18,000 |
|                        |       |           | - | 25,500 |

#### **Convertible notes**

|                                                           | \$'000    |
|-----------------------------------------------------------|-----------|
| Carrying amount at 1 July 2019                            | 73,991    |
| Loss on conversion recognised in profit or loss           | 51,443    |
| Issue of ordinary shares upon conversion in November 2019 | (125,434) |
| <b>Balance at 30 June 2020</b>                            | -         |

On listing of the Group on the Australian Stock Exchange on 29 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 \$51.4 million, this included an amount of interest accrued of \$3.1 million on conversion.

#### **Financial liabilities measured subsequently at amortised cost**

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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

## Notes to the Financial Statements (cont)

### Loan

Carbon Revolution is party to a loan arrangement with the State of Victoria under which the company was provided with an early grant advance. This loan will reduce as the company achieves milestones associated with that grant. The company believes it has passed the hurdles required to earn the 2020 grant, this will be assessed in the coming months. Once approved, the loan will be reduced by \$2m to \$3.5m.

### Ronal AG loan facility

The Group has issued a convertible loan facility to Ronal AG, a related party, which is due for repayment on 30 June 2021. A partial repayment was made of \$5 million during 2020 as per the agreement. 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. The balance at 30 June 2020 can only be converted into shares within 30 days of an event of default or Ronal AG providing a notice of illegality of the contract.

### Finance costs

Finance 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.

Finance costs are expensed in the period in which they are incurred, except for finance 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.

Refer to note 2.4 for more information

## 4.3 Financial risk management

The Group is exposed to currency risk, interest rate risk, credit 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 Market risk

#### a) 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).

51% of the Group's revenues and 19% of costs are denominated in currencies other than AUD. 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. The primary currencies the Group has exposure to are US Dollars and Euros.

The Group's exposure to foreign currency risk in relation to non-derivative financial instruments at 30 June 2020 was as follows, based upon notional amounts.

| <b>2020</b>                   | <b>EUR<br/>\$'000</b> | <b>USD<br/>\$'000</b> |
|-------------------------------|-----------------------|-----------------------|
| Trade receivables             | 1,855                 | 32                    |
| Trade payables                | (1,492)               | (307)                 |
| <b>Balance sheet exposure</b> | <b>363</b>            | <b>(275)</b>          |

| <b>2019</b>                   | <b>EUR<br/>\$'000</b> | <b>USD<br/>\$'000</b> |
|-------------------------------|-----------------------|-----------------------|
| Trade receivables             | 3,441                 | 7                     |
| Trade payables                | (1,273)               | -                     |
| <b>Balance sheet exposure</b> | <b>2,168</b>          | <b>7</b>              |

The aggregate net foreign exchange gains/losses recognised in profit or loss were:

|                                                           | <b>2020<br/>\$'000</b> | <b>2019<br/>\$'000</b> |
|-----------------------------------------------------------|------------------------|------------------------|
| Net foreign exchange gain/(loss) included in other income | 107                    | 8                      |

#### Sensitivity

As shown in the table above the Group is primarily exposed to changes in US/AUD and EUR/AUD. The sensitivity of profit or loss to changes in the exchange rates arises mainly from EUR dollar denominated financial instruments and the impact on other components of equity arises from the foreign exchange reserve and is not material.

The below table discloses the impact of the AUD strengthened and weakened by 5%

| <b>+/- 5% exchange rate</b> | <b>2020<br/>\$'000</b> | <b>2019<br/>\$'000</b> |
|-----------------------------|------------------------|------------------------|
| Impact on profit after tax  | 4                      | 109                    |
| Impact on equity            | (4)                    | (109)                  |

#### b) Interest rate risk

Interest rate risk is the risk that the fair value of 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 loans are both at a fixed interest rate. The Group does not currently hedge its exposure to interest rate fluctuations due to the low level of exposure.

## Notes to the Financial Statements (cont)

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

|  | Variable interest rate |        | Fixed interest rate |        | Total  |        |
|--|------------------------|--------|---------------------|--------|--------|--------|
|  | 2020                   | 2019   | 2020                | 2019   | 2020   | 2019   |
|  | \$'000                 | \$'000 | \$'000              | \$'000 | \$'000 | \$'000 |

### Financial assets

|                        |        |        |     |     |        |        |
|------------------------|--------|--------|-----|-----|--------|--------|
| Cash                   | 33,469 | 45,451 | -   | -   | 33,469 | 45,451 |
| Short term deposits    | -      | -      | 392 | 392 | 392    | 392    |
| Total financial assets | 33,469 | 45,451 | 392 | 392 | 33,861 | 45,843 |

### Financial liabilities

|                             |   |   |        |        |        |        |
|-----------------------------|---|---|--------|--------|--------|--------|
| Insurance premium funding   | - | - | 174    | 41     | 174    | 41     |
| Convertible notes           | - | - | -      | 73,991 | -      | 73,991 |
| Loan                        | - | - | 5,500  | 7,500  | 5,500  | 7,500  |
| Ronal AG loan facility      | - | - | 13,000 | 18,000 | 13,000 | 18,000 |
| Total financial liabilities | - | - | 18,674 | 99,532 | 18,674 | 99,532 |

Fixed interest rate on short term deposits is 0.20%. Fixed interest rates on financial liabilities are disclosed in note 4.2

The Group holds \$392,000 (2018: \$392,000) on deposit as collateral for lease and banking facility obligations. The operating cash account received an average interest rate of 1.4% (2019: 0.79%) per annum.

### Sensitivity

Profit or loss is sensitive to higher/ lower interest income from cash and cash equivalents as a result of changes in interest rates.

The Group's financial liabilities have fixed interest rate and therefore does not expose the Group with an interest rate risk

|                             | 2020   | 2019   |
|-----------------------------|--------|--------|
|                             | \$'000 | \$'000 |
| <b>+/- 100 basis points</b> |        |        |
| Impact on profit after tax  | 334    | 458    |
| Impact on equity            | (334)  | (458)  |

### c) Price risk

The Group is not exposed to any significant price risk.

#### 4.3.2 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 \$33.9 million at 30 June 2020 (30 June 2019: \$45.8 million). 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. Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. The Group holds \$0.4 million (2019: \$0.4 million) on deposit as collateral for lease and banking facility obligations.

### **Receivables**

The Group held receivables of \$7.9 million at 30 June 2020 (30 June 2019: \$9.0 million). The concentrated nature of receivables with only a few customers enables customer credit risk to be assessed using the simplified approach when estimating the expected credit losses. Depending on the customer, the Group's credit terms vary between 30 and 90 days. An impairment analysis is performed at each reporting date to account for the lifetime expected credit losses for all receivables. 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.

There is currently an immaterial allowance for expected credit losses as the Group has historically collected all customer debt amounts and expects to continue to do so for the customers contained within the balance at year end.

#### ***4.3.3 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, this includes an assessment of the impact of COVID on the business.

All available facilities are currently utilised. Arrangements to repay the \$13 million term loan are well progressed. Key terms and conditions for a three-year term loan facility with EFA have been agreed and this arrangement is now being documented.

### **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.

## Notes to the Financial Statements (cont)

|                           | On demand | < 3 months | 3-12 months | 1-5 years | > 5 years | Total  |
|---------------------------|-----------|------------|-------------|-----------|-----------|--------|
|                           | \$'000    | \$'000     | \$'000      | \$'000    | \$'000    | \$'000 |
| <b>2020</b>               |           |            |             |           |           |        |
| Insurance premium funding | -         | 174        | -           | -         | -         | -      |
| Convertible notes         | -         | -          | -           | -         | -         | -      |
| Loan                      | -         | -          | 5,500       | -         | -         | 5,500  |
| Ronal AG loan             | -         | -          | 13,000      | -         | -         | 13,000 |
| Lease Liabilities         | -         | 156        | 813         | 2,508     | 6,042     | 9,519  |
|                           | -         | 330        | 19,313      | 2,508     | 6,042     | 28,193 |
| <b>2019</b>               |           |            |             |           |           |        |
| Insurance premium funding | -         | -          | 41          | -         | -         | 41     |
| Convertible notes         | -         | -          | 73,991      | -         | -         | 73,991 |
| Loan                      | -         | -          | -           | 7,500     | -         | 7,500  |
| Ronal AG loan             | -         | -          | -           | 18,000    | -         | 18,000 |
|                           | -         | -          | 74,032      | 25,500    | -         | 99,532 |

### 4.3.4 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.

As at 30 June 2020 there were no assets or liabilities impacted by fair value risk. At 30 June 2019 the group measured the convertible loan facility rights at a fair value of \$73.991 million.

### Accounting policy for fair value

For financial assets and liabilities measured and carried at fair value in 2019, the Group used the following levels to categorise the valuation methods used:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of the convertible notes issued on 30 May 2019 was determined at inception and at year end, based on the arms-length transaction value associated with the issue of the convertible notes to 156 note holders. With the IPO on 29 November 2019, the convertible notes converted into ordinary shares.

#### 4.4 Contributed equity

|                              | 30 June 2020<br># Ordinary shares | 30 June 2019<br># Ordinary shares | 30 June 2020<br>\$'000 | 30 June 2019<br>\$'000 |
|------------------------------|-----------------------------------|-----------------------------------|------------------------|------------------------|
| Ordinary shares – fully paid | 145,632,909                       | 50,892,598                        | 291,226                | 75,897                 |
| Ordinary shares – restricted | 253,460                           | -                                 | -                      | -                      |
| <b>Total share capital</b>   | <b>145,886,369</b>                | <b>50,892,598</b>                 | <b>291,226</b>         | <b>75,897</b>          |

##### *Movements in ordinary share capital*

| <b>2019</b>                                                   | <b>Date</b>         | <b># Shares</b>    | <b>Issue Price</b> | <b>\$'000</b>  |
|---------------------------------------------------------------|---------------------|--------------------|--------------------|----------------|
| <b>Balance</b>                                                | <b>1 July 2018</b>  | <b>50,869,000</b>  |                    | <b>75,814</b>  |
| Issue of shares in respect of Share-Based Payments plan (SBP) |                     | 23,598             |                    | 83             |
| <b>Balance of fully paid shares</b>                           | <b>30 June 2019</b> | <b>50,892,598</b>  |                    | <b>75,897</b>  |
| <b>2020</b>                                                   | <b>Date</b>         | <b># Shares</b>    | <b>Issue Price</b> | <b>\$'000</b>  |
| <b>Balance</b>                                                | <b>1 July 2019</b>  | <b>50,892,598</b>  |                    | <b>75,897</b>  |
| Issue of Shares (IPO)                                         | 29 November 2019    | 11,538,462         | \$2.60             | 30,000         |
| Issue of shares in respect of SBP plan                        | 29 November 2019    | 95,605             | \$2.60             | 248            |
| 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         |
| Issue of employee shares                                      | 13 March 2020       | 19,230             | \$2.51             | 48             |
| Institutional placement                                       | 23 March 2020       | 16,666,667         | \$1.50             | 25,000         |
| Issue of shares in respect of SPP                             | 22 April 2020       | 1,820,070          | \$1.50             | 2,730          |
| Share issue transaction costs                                 |                     |                    |                    | (3,932)        |
| <b>Balance of fully paid shares</b>                           | <b>30 June 2020</b> | <b>145,632,909</b> |                    | <b>291,226</b> |

\* 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.

##### **4.4.1 Information about contributed equity**

###### **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.

## Notes to the Financial Statements (cont)

On 29 November 2019 the Group listed on the Australian Stock Exchange at a listing price of \$2.60. This raising was fully subscribed and 11,538,462 shares were issued with cash value of \$30 million. On the same date the convertible notes converted into ordinary shares, and anti-dilutive shares and shares in relation to share-based payment arrangements were required to be issued.

On the 23 March 2020, an additional \$25m institutional capital raising of \$1.50 per share was finalised. This was followed by a further \$2.73m in April raised from existing shareholders through the share purchase plan ("SPP"). These shares were also issued at \$1.50.

During the financial year ended 30 June 2020, the Company did not pay a dividend (30 June 2019: \$nil).

### 4.5 Share-based payment arrangements

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.

### Tax-exempt employee share ownership plan

The tax-exempt employee share ownership plan ("TESP") 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 last to occur of either:

- a) Elapse of three years from the date of grant; or
- b) Listing of the Company's shares on the ASX or earlier 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 TESP is determined based on the market price of the shares at grant date.

|                                                                                    | 2020     | 2019     |
|------------------------------------------------------------------------------------|----------|----------|
| Grant date                                                                         | Nov 2019 | Dec 2018 |
| Number of employees granted shares                                                 | 110      | 83       |
| Value of shares granted per employee (on FTE and length of service pro-rata basis) | \$1,000  | \$1,000  |
| Total number of shares                                                             | 38,269   | 23,598   |
| Fair value at grant date                                                           | \$2.60   | \$3.50   |

#### Short term incentive plan

The employee short term incentive ("STI") plan was approved in November 2019. Under the STI plan, senior executives and other employees, as determined by the Board, will defer a portion of their short-term incentive payment in the form of rights. In 2020 the Board determined that all participants would have 100% of their STI outcome delivered in the form of rights in lieu of a cash payment.

Each right is equivalent to one share and is settled only in shares with no cash alternative. The fair value of each right is determined based on the market price of the share at grant date. Rights have a one-year service period.

Rights do not carry dividend or voting rights prior to vesting. Shares allocated on vesting of rights carry the same dividend and voting rights as other shares.

97,172 rights were granted on 23rd December 2019, valued at \$369,254 on the grant date (2019: Nil). No rights were forfeited, exercised or expired during the year. The rights will vest on 16 October 2020.

#### Employee stock ownership plan

The employee stock ownership plan (ESOP) was used to deliver a one-off equity award to a number of senior executives and other employees, including the CEO, to reward their efforts in the Company achieving listing, to align their interests with the shareholders from listing and for retention purposes. Participation was at the discretion of the Board and options are subject to vesting conditions determined by the Board.

## Notes to the Financial Statements (cont)

The exercise price of the options is equal to the market price of the underlying shares at IPO. The Board retains a discretion to make a cash payment to participants on vesting and exercise of the options in lieu of an allocation of shares.

5,093,678 options were granted to members of the executive team and a small number of other employees on 23 December 2019 under the one-off ESOP award on listing.

In September 2019, an independent valuation was undertaken of these options using a modified form of the Black-Scholes option pricing model which assumed a 12.5% departure rate, expected share price volatility of 40%, a 50% probability of no dividends through the 5-year option term and a 5% discount for marketability annual share price.

The terms of the options are:

- Issue date 23 December 2019
- Term of 5 years
- First exercise date – 3 years
- Exercise price \$2.60 (IPO price).

The options were valued at \$3.2m. This cost is being amortised over the three-year vesting period. 96,780 options were forfeited during the year.

### 4.6 Reserves

|                                      | 2020<br>\$'000 | 2019<br>\$'000 |
|--------------------------------------|----------------|----------------|
| Share-based payments                 | 1,394          | -              |
| Share buyback reserve                | (311)          | (311)          |
| Foreign currency translation reserve | (159)          | (166)          |
|                                      | 924            | (477)          |

#### 4.6.1 Information about reserves

##### Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration.

##### Share buy-back reserve

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

##### 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.

## 5 / TAXES

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 asset-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 other comprehensive income 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.

## Notes to the Financial Statements (cont)

### 5.1 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. Management have determined that it is not appropriate to recognise a deferred tax asset until consistent levels of profitability can be demonstrated. No deferred tax assets have been recognised as at 30 June 2020 (2019: Nil).

Refer to note 5.4 for details regarding unrecognised tax amounts.

### 5.2 Income tax expense

The major components of income tax expense are:

|                                                                                                       | 2020<br>\$'000 | 2019<br>\$'000 |
|-------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Consolidated statement of profit or loss</b>                                                       |                |                |
| 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                 | -              | -              |
|                                                                                                       | -              | -              |
| <b>The prima facie tax benefit on loss before tax differs from the income tax expense as follows:</b> |                |                |
| Accounting loss before tax                                                                            | (114,046)      | (27,212)       |
| Benefit at the Australian statutory income tax rate of 30% (2019: 30%)                                | 34,213         | 8,164          |
| <i>Tax impact of:</i>                                                                                 |                |                |
| Non-deductible expenses                                                                               | (28,831)       | (1,353)        |
| Non-assessable income                                                                                 | 837            | 1,161          |
| Impact of different tax rates in foreign jurisdictions                                                | 29             | (43)           |
| Current year taxable loss not recognised                                                              | (6,248)        | (7,929)        |
| <b>Income tax benefit</b>                                                                             | -              | -              |

### 5.3 Deferred taxes

|                                 | 2020<br>\$'000 | 2019<br>\$'000 |
|---------------------------------|----------------|----------------|
| <b>Deferred tax assets</b>      |                |                |
| Provisions and accruals         | 2,173          | 2,401          |
| Capital raising                 | 1,683          | 1,786          |
| Tax losses                      | 25,351         | 13,521         |
| Other                           | 37             | -              |
|                                 | 29,244         | 17,708         |
| <b>Deferred tax liabilities</b> |                |                |
| Receivables                     | (1)            | (18)           |
| Other                           | (31)           | -              |
|                                 | (32)           | (18)           |
| Net deferred tax asset          | 29,212         | 17,690         |
| Deferred taxes not recognised   | 29,212         | 17,690         |

### 5.4 Unrecognised deferred tax assets

At 30 June 2020 the Group has unrecognised deferred tax assets of \$29.2 million including an amount of \$25.3 million arising from the Group's tax losses not booked of \$66.8 million mainly relating to Australian tax losses and research and development tax offset (2019: unrecognised deferred tax asset of \$17.7 million).

The Group has not recognised the net deferred tax asset as described in accounting judgements and estimates at note 5.1.

## 6 / OTHER NOTES

### 6.1 Information about subsidiaries

The table below lists the controlled entities of the Group.

| Name                                 | Principal activities | Country of incorporation | % equity interest |      |
|--------------------------------------|----------------------|--------------------------|-------------------|------|
|                                      |                      |                          | 2019              | 2020 |
| 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  |
| Carbon Revolution (UK) Limited       | Carbon fibre wheels  | United Kingdom           | 100               | 100  |

## Notes to the Financial Statements (cont)

### 6.2 Deed of cross guarantee

Carbon Revolution Limited and Carbon Revolution Operations Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed dated 25 June 2019, Carbon Revolution Operations Pty Ltd has been relieved from the requirement to prepare a financial report and directors' report under ASIC Corporations (wholly owned companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission. Refer below for the statement of profit and loss and other comprehensive income for the parties to the deed of cross guarantee for the year ended 30 June 2020:

|                                                          | 2020<br>\$'000   | 2019<br>\$'000  |
|----------------------------------------------------------|------------------|-----------------|
| Sale of wheels                                           | 36,868           | 13,787          |
| Engineering services                                     | 1,492            | 870             |
| Sale of tooling                                          | 600              | 361             |
| <b>Revenue</b>                                           | <b>38,960</b>    | <b>15,018</b>   |
| Cost of goods sold                                       | (50,475)         | (22,499)        |
| <b>Gross margin</b>                                      | <b>(11,515)</b>  | <b>(7,481)</b>  |
| Other income                                             | 6,729            | 5,034           |
| Operational expenses                                     | (1,567)          | (3,034)         |
| Research and development                                 | (4,778)          | (4,490)         |
| Administrative expenses                                  | (9,352)          | (6,377)         |
| Marketing expenses                                       | (2,047)          | (1,431)         |
| Capital raising transaction costs                        | (1,448)          | (7,684)         |
| Finance costs                                            | (2,678)          | (2,154)         |
| Gain on revaluation of financial instruments             | -                | 548             |
| Loss on conversion of financial instruments on IPO       | (51,443)         | -               |
| Anti-dilutive shares issued on IPO                       | (35,801)         | -               |
| Impairment of inter-company balances                     | (11)             | (241)           |
| <b>Loss before income tax expense</b>                    | <b>(113,911)</b> | <b>(27,310)</b> |
| Income tax expense                                       | -                | -               |
| <b>Loss for the year after income tax</b>                | <b>(113,911)</b> | <b>(27,310)</b> |
| Other comprehensive income                               | -                | -               |
| <b>Total comprehensive loss for the year, net of tax</b> | <b>(113,911)</b> | <b>(27,310)</b> |

Refer below for the statement of financial position for the parties to the deed of cross guarantee as at 30 June 2020:

|                                            | 2020<br>\$'000 | 2019<br>\$'000  |
|--------------------------------------------|----------------|-----------------|
| <b>Current assets</b>                      |                |                 |
| Cash and cash equivalents                  | 33,855         | 45,706          |
| Receivables                                | 7,952          | 9,092           |
| Inventories                                | 27,697         | 9,503           |
| Other current assets                       | 811            | 321             |
| <b>Total current assets</b>                | <b>70,315</b>  | <b>64,622</b>   |
| <b>Non-current assets</b>                  |                |                 |
| Property, plant and equipment              | 44,036         | 31,536          |
| Right of use asset                         | 9,290          | -               |
| Intangible assets                          | 17,947         | 7,886           |
| <b>Total non-current assets</b>            | <b>71,273</b>  | <b>39,422</b>   |
| <b>Total assets</b>                        | <b>141,588</b> | <b>104,044</b>  |
| <b>Current liabilities</b>                 |                |                 |
| Payables                                   | 17,037         | 11,718          |
| Borrowings                                 | 18,674         | 74,032          |
| Lease liability                            | 979            | -               |
| Deferred income                            | 798            | 608             |
| Provisions                                 | 2,853          | 2,521           |
| <b>Total current liabilities</b>           | <b>40,341</b>  | <b>88,879</b>   |
| <b>Non-current liabilities</b>             |                |                 |
| Borrowings                                 | -              | 25,500          |
| Lease liability                            | 8,540          | -               |
| Deferred income                            | 3,416          | 3,160           |
| Provisions                                 | 519            | 180             |
| <b>Total non-current liabilities</b>       | <b>12,475</b>  | <b>28,840</b>   |
| <b>Total liabilities</b>                   | <b>52,816</b>  | <b>117,719</b>  |
| <b>Net liabilities</b>                     | <b>88,772</b>  | <b>(13,675)</b> |
| <b>Equity</b>                              |                |                 |
| Contributed equity                         | 291,226        | 75,897          |
| Reserves                                   | 1,083          | (311)           |
| Accumulated losses                         | (203,537)      | (89,261)        |
| <b>Total equity/(deficiency in equity)</b> | <b>88,772</b>  | <b>(13,675)</b> |

## Notes to the Financial Statements (cont)

### 6.3 Key management personnel compensations

| Compensation by category       | 2020<br>\$ | 2019<br>\$ |
|--------------------------------|------------|------------|
| Short-term employment benefits | 1,695,146  | 1,245,376  |
| Post-employment benefits       | 118,867    | 79,682     |
| Other long term benefits       | 46,005     | -          |
| Share based payments           | 399,027    | 200,000    |
|                                | 2,258,335  | 1,525,058  |

### 6.4 Transactions with related parties

#### Convertible notes

Five directors participated in the convertible notes issue in May 2019 with a combined value of \$375,000, which were converted into shares as part of IPO in November 2019.

#### 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.

#### Share purchases

Four directors participated in the IPO in November 2019 acquiring 142,310 shares at a value of \$370,006.

Five directors participated in the share purchase plan in March 2020 acquiring 88,000 shares at a value of \$132,000.

### 6.5 Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2020 the parent entity of the Group was Carbon Revolution Limited. The parent entity applied the same accounting policies as the Group.

|                                       | 2020<br>\$'000 | 2019<br>\$ '000 |
|---------------------------------------|----------------|-----------------|
| <b>Results of parent entity</b>       |                |                 |
| Loss for the year                     | 114,887        | 27,307          |
| Other comprehensive loss              | -              | -               |
| Total comprehensive loss for the year | 114,887        | 27,307          |

#### **Financial position for the parent entity at year end**

|                     |          |           |
|---------------------|----------|-----------|
| Current assets      | 36,532   | 49,471    |
| Total assets        | 110,210  | 89,209    |
| Current liabilities | (21,783) | (78,118)  |
| Total liabilities   | (21,783) | (102,618) |

#### **Total equity of the parent company comprising of**

|                                     |           |          |
|-------------------------------------|-----------|----------|
| Contributed equity                  | 291,226   | 75,897   |
| Reserves                            | 1,083     | (311)    |
| Accumulated losses                  | (203,882) | (88,995) |
| Total equity/(deficiency in equity) | 88,427    | (13,409) |

### **6.6 Auditor's remuneration**

The auditor of the Group for the year ended 30 June 2020 is Deloitte (30 June 2019: Deloitte).

|                                                                         | 2020<br>\$'000 | 2019<br>\$ '000 |
|-------------------------------------------------------------------------|----------------|-----------------|
| <b>Audit services</b>                                                   |                |                 |
| Audit and review of the financial report                                | 140,000        | 75,000          |
| <b>Other services</b>                                                   |                |                 |
| Capital raising – IPO investigating accountant and vendor due diligence | 572,064        | 348,270         |
| <b>Member firm of Deloitte</b>                                          |                |                 |
| Employee payroll service - Germany                                      | 2,755          | 4,565           |
|                                                                         | 714,819        | 427,835         |

## Notes to the Financial Statements (cont)

### 6.7 Unrecognised items

#### 6.7.1 Guarantees

The Group has entered into property lease rental guarantees with a face value of \$271,763 (30 June 2019: \$271,763).

#### 6.7.2 Capital commitments

The Group has capital commitments for manufacturing equipment as at 30 June 2020 totalling \$3.651 million (30 June 2019: \$2.688 million).

#### 6.7.3 Contingent liabilities

The Group has no contingent liabilities as at 30 June 2020 (2019: nil).

### 6.8 Changes in accounting policies

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 2019 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 on financial statements

On transition to AASB 16, the Group has recognised \$9.1 million of right-of-use assets, \$9.5 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 July 2019. The weighted-average rate applied is 3.74%. Earnings per share decreased by 0.001c per share for the 12 months to 30 June 2020 as a result of AASB 16 adoption.

|                                                          | 2019<br>\$'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          |

## 6.9 Accounting standards issued but not yet effective at 30 June 2020

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 &amp; 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                                                  |
| <i>AASB 2020-1 Amendments to Australian Accounting Standards – Classifications of Liabilities as Current or Non-Current</i>                                                                                                                                                                                                                                                                                                                        | 1 January 2022                                               | 30 June 2023                                                  |
| <i>AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments</i>                                                                                                                                                                                                                                                                                                                              | 1 January 2022                                               | 30 June 2023                                                  |
| <i>AASB 2020-4 Amendments to Australian Accounting Standards – Covid-19 Rent Concessions</i>                                                                                                                                                                                                                                                                                                                                                       | 1 June 2020                                                  | 30 June 2023                                                  |

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 Financial Statements (cont)

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### **6.10 Subsequent events**

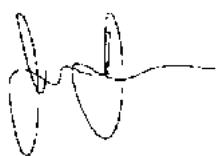
COVID-19 continues to be an ongoing global situation which is likely to continue to have significant and unpredictable flow on impacts to the Group's business. On 6 August 2020 the State of Victoria placed regional Victoria (including Geelong) under Stage 3 restrictions which allows manufacturing businesses to continue to operate. Management continues to keep up to date with all recommendations made by the Department of Health and Human Services and WorkSafe Victoria best practices to ensure the safety and well-being of our workforce. Management are also monitoring the impact in other countries where COVID-19 may also effect the Company's operations.

## 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 2020 are in accordance with the Corporations Act, including:
  - i) giving a true and fair view of the Group's financial position at 30 June 2020 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



**James Douglas**  
**Chair**  
Geelong  
24 August 2020



Deloitte Touche Tohmatsu  
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### Independent Auditor's Report to the Members of Carbon Revolution Limited

#### Report on the Audit of the Financial Report

##### 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 2020, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 2020 and of its financial performance for the year then ended; and
- (ii) (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 (including Independence Standards)* (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.

##### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

| Key Audit Matter and why it was considered to be a matter of most significance in the audit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | How the Key Audit Matter was addressed in the audit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Capitalisation of development costs</b></p> <p>As at 30 June 2020 the Group's capitalised development costs total \$17.1m as disclosed in Note 3.5.</p> <p>Capitalisation of development costs requires management judgement to determine whether:</p> <ul style="list-style-type: none"> <li>• Expenditure relates to development activity and not research activity,</li> <li>• Expected future economic benefits attributable to the intangible assets will flow to the Group,</li> <li>• The amortisation of intangible assets should commence when revenue has been generated, and</li> <li>• The useful lives assigned are appropriate.</li> </ul>                                                                                                                                                                                                                                                                                                                                             | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the process undertaken by management to determine whether expenditure should be capitalised as intangible assets;</li> <li>• Assessing the appropriateness of management's accounting policy;</li> <li>• Assessing capitalised development costs at balance date to determine whether they have been correctly capitalised and it is probable that expected future economic benefits attributable to those assets will flow to the Group; and</li> <li>• Reviewing the listing of capitalised intangible assets at balance date to verify that: <ul style="list-style-type: none"> <li>◦ Amortisation has commenced on intangible assets that are available for use; and</li> <li>◦ The useful lives assigned to each intangible asset are appropriate.</li> </ul> </li> </ul> <p>We have also assessed the appropriateness of the disclosures in Note 3.5.1 to the financial statements.</p> |
| <p><b>Valuation of inventory</b></p> <p>As at 30 June 2020 the Group inventory balances total \$23.6m, as disclosed in Note 3.2. Provided against this, is a total inventory provision of \$4.4m.</p> <p>The Group holds significant stock of finished goods and work in progress inventory at its manufacturing facility, the measurement of which is an important input into gross margin.</p> <p>Valuation of inventory at the lower of its cost and net realisable value requires management judgement to determine whether:</p> <ul style="list-style-type: none"> <li>• Finished goods are in a saleable condition in order to meet quality specifications;</li> <li>• There are any indicators of technical or functional obsolescence;</li> <li>• Customers are willing to purchase finished goods that had previously been identified to be defective, and at what price.</li> <li>• Selling costs that may impact the net realisable value of finished goods on hand are appropriate.</li> </ul> | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of management's processes and judgements applied in estimating the net realisable value of inventory;</li> <li>• Evaluating management's judgements in estimating net realisable value by comparing the carrying value of a sample of finished goods to contractual sales prices;</li> <li>• Validating the quantity and cost of inventory subject to provision.</li> </ul> <p>We have also assessed the appropriateness of the disclosures in Note 3.2.1 to the financial statements.</p>                                                                                                                                                                                                                                                                                                                                                                                                       |

### **Deloitte.**

#### **Other Information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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 Group's ability 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 have 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.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on the Remuneration Report**

##### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in section 4.3 of the Director's Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Carbon Revolution Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

##### *Responsibilities*

The director's of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

  
DELOITTE TOUCHE TOHMATSU



Stephen Roche  
Partner  
Chartered Accountants  
Melbourne, 24 August 2020

## 7 / SHAREHOLDER INFORMATION

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report.

The Shareholder Information set out below was applicable as at 6 August 2020.

### 1. CORPORATE GOVERNANCE STATEMENT

Carbon Revolution ('the Company') has prepared a Corporate Governance Statement which sets out the corporate governance practices that were in operation since the listing of the Company on the ASX on 29 November 2019.

In accordance with ASX Listing Rule 4.10.3, the Corporate Governance Statement will be available for review on the Company's website [www.carbonrev.com](http://www.carbonrev.com) and will be lodged with ASX at the same time that this Annual Report is lodged with ASX.

### 2. DISTRIBUTION AND NUMBER OF SHAREHOLDERS OF EQUITY SECURITIES

The distribution and number of holders of equity securities on issue in the Company as at the Reporting Date, and the number of holders holding less than a marketable parcel of the Company's ordinary shares, based on the closing market price as at the Reporting Date, is as follows:

#### 2.1 Distribution of ordinary shareholders

| Range                             | Securities  | %      | No. of holders |
|-----------------------------------|-------------|--------|----------------|
| 100,001 and Over                  | 115,416,076 | 79.11  | 98             |
| 10,001 to 100,000                 | 21,676,412  | 14.86  | 697            |
| 5,001 to 10,000                   | 4,089,186   | 2.80   | 536            |
| 1,001 to 5,000                    | 3,920,229   | 2.69   | 1,470          |
| 1 to 1,000                        | 784,466     | 0.54   | 1,451          |
| Total                             | 145,886,369 | 100.00 | 4,252          |
| Unmarketable Parcels <sup>1</sup> | 0           | 0.00   | 0              |

<sup>1</sup> Holders of less than a marketable parcel of \$500 are included in the above total.

The above table includes 133,410,701 quoted ordinary shares, and 12,475,668 unquoted ordinary shares which are subject to mandatory escrow following listing of the Company on the ASX.

## 2.2 Distribution of holders of rights and options

| Range             | Securities       | No. of holders |
|-------------------|------------------|----------------|
| 100,001 and Over  | 5,084,275        | 9              |
| 10,001 to 100,000 | 203,747          | 3              |
| 5,001 to 10,000   | -                | -              |
| 1,001 to 5,000    | -                | -              |
| 1 to 1,000        | -                | -              |
| <b>Total</b>      | <b>5,288,022</b> | <b>12</b>      |

## 3. TWENTY LARGEST QUOTED EQUITY SECURITY HOLDERS

The Company only has one class of quoted securities, being ordinary shares. The names of the twenty largest holders of ordinary shares, the number of ordinary shares and the percentage of capital held by each holder is as follows:

| Rank                       | Name                                        | 06 Aug 2020        | %IC           |
|----------------------------|---------------------------------------------|--------------------|---------------|
| 1                          | CITICORP NOMINEES PTY LIMITED               | 13,285,965         | 9.96          |
| 2                          | BNP PARIBAS NOMINEES PTY LTD                | 11,098,432         | 8.32          |
| 3                          | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED   | 10,309,305         | 7.73          |
| 4                          | RONAL AG                                    | 9,985,354          | 7.48          |
| 5                          | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED   | 8,967,827          | 6.72          |
| 6                          | DEAKIN UNIVERSITY                           | 7,770,395          | 5.82          |
| 7                          | NATIONAL NOMINEES LIMITED                   | 7,000,562          | 5.25          |
| 8                          | UBS NOMINEES PTY LTD                        | 4,828,418          | 3.62          |
| 9                          | CROWN IN RIGHT OF THE STATE OF VICTORIA     | 4,809,041          | 3.60          |
| 10                         | BNP PARIBAS NOMS PTY LTD                    | 3,742,474          | 2.81          |
| 11                         | MR BRETT GASS                               | 2,458,302          | 1.84          |
| 12                         | MATTHEW DINGLE                              | 2,117,770          | 1.59          |
| 13                         | MR ASHLEY JAMES DENMEAD                     | 1,414,000          | 1.06          |
| 14                         | RUBI HOLDINGS PTY LTD                       | 766,164            | 0.57          |
| 15                         | ACORN CAPITAL PRIVATE OPPORTUNITIES FUND LP | 699,757            | 0.52          |
| 16                         | DIXSON TRUST PTY LTD                        | 456,540            | 0.34          |
| 17                         | EMBRACIA PTY LTD                            | 412,360            | 0.31          |
| 18                         | ESCOR OPERATIONS (DIRECT) PTY LTD           | 327,153            | 0.25          |
| 19                         | MCGREGOR INVESTMENTS PTY LTD                | 326,559            | 0.24          |
| 20                         | INVIA CUSTODIAN PTY LIMITED                 | 309,678            | 0.23          |
| <b>Total</b>               |                                             | <b>91,086,056</b>  | <b>68.27</b>  |
| <b>Balance of register</b> |                                             | <b>42,324,645</b>  | <b>31.73</b>  |
| <b>Grand total</b>         |                                             | <b>133,410,701</b> | <b>100.00</b> |

The above table is based only on quoted shares, and does not include unquoted escrowed shares.

## 7 / SHAREHOLDER INFORMATION (CONT)

### 4. SUBSTANTIAL HOLDERS

As at the Reporting Date, the names of the substantial holders of the Company and the number of equity securities in which those substantial holders and their associates have a relevant interest, as disclosed in substantial holding notices given to the Company, are as follows:

| Name                                                                      | Number Held | % of Issued Capital | Date notice provided |
|---------------------------------------------------------------------------|-------------|---------------------|----------------------|
| Deakin University                                                         | 8,377,592   | 6.58                | 29/11/2019           |
| Ronal AG                                                                  | 14,227,941  | 11.17               | 29/11/2019           |
| Quest Asset Partners Pty Ltd                                              | 7,890,718   | 6.20                | 10/12/2019           |
| Commonwealth Bank of Australia                                            | 7,591,335   | 5.27                | 23/03/20             |
| Greencap Capital Pty Ltd                                                  | 8,590,781   | 6.13                | 23/03/20             |
| Challenger Limited                                                        | 9,505,170   | 6.78                | 23/03/20             |
| ECP Asset Management Pty Ltd                                              | 7,535,361   | 5.17                | 08/07/20             |
| UniSuper Limited as trustee for UniSuper and UniSuper Management Pty Ltd1 | 8,494,800   | 5.82                | 10/07/20             |

On 14 August 2020 UniSuper Limited notified the Company that its relevant holding had increased to 10,374,775 shares

### 5. VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

#### 5.1 Ordinary shares

At a general meeting of the Company, every holder of ordinary shares present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each ordinary share held.

#### 5.2 Rights and options

Rights and options do not carry any voting rights.

## 6. UNQUOTED EQUITY SECURITIES

| ASX Code     | Class                                         | Number of securities |
|--------------|-----------------------------------------------|----------------------|
| CBRAA        | Ordinary shares, escrow<br>expiring 29 Nov 21 | 10,184,039           |
| CBRAB        | Ordinary shares, escrow<br>expiring 29 Nov 20 | 2,001,179            |
| <b>TOTAL</b> |                                               | <b>12,185,218</b>    |

| Class        | Number of securities |
|--------------|----------------------|
| Rights       | 97,172               |
| Options      | 5,093,678            |
| <b>TOTAL</b> | <b>5,190,850</b>     |

Holders of more than 20% of unquoted securities other than under an Employee Incentive Scheme

| ASX Code | Name                                       | Number of securities | % of class |
|----------|--------------------------------------------|----------------------|------------|
| CBRAA    | Ronal AG                                   | 4,242,587            | 41.66      |
|          | Point Grey Investments Pty Ltd             | 4,019,443            | 39.47      |
| CBRAB    | Crown in Right of the<br>State of Victoria | 612,701              | 26.74      |

## 7. VOLUNTARY ESCROW

There are 22,120,112 securities subject to voluntary escrow in the Company as at the Reporting Date.

The escrow period ends 1 December 2020.

## 8. ON-MARKET BUY-BACK

The Company is not currently conducting an on-market buy-back.

## 9. ON-MARKET PURCHASE OF SECURITIES

The company did not purchase securities on market during the reporting period.

## 10. CORPORATE DIRECTORY

|                                     |                                                                                                                                                                                                                       |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Directors</b>                    | James Douglas<br>Jake Dingle<br>Bruce Griffiths<br>Lucia Cade<br>Dale McKee<br>Mark Bernhard<br>Peter Lewinsky                                                                                                        |
| <b>Company Secretary</b>            | David Nock                                                                                                                                                                                                            |
| <b>Annual General Meeting</b>       | 6 November 2020                                                                                                                                                                                                       |
| <b>Director nomination deadline</b> | 4 September 2020                                                                                                                                                                                                      |
| <b>Registered office</b>            | Carbon Revolution<br>Building NR,<br>Geelong Technology Precinct<br>75 Pigdons Road<br>Waurin Ponds, Victoria, 3216<br>Australia<br>Phone: +61 3 5271 3500                                                            |
| <b>Share register</b>               | Share Registry<br>Link Market Services<br>Level 12, 680 George Street<br>Sydney NSW 2000<br>Australia<br>P: +61 1300 554 47                                                                                           |
| <b>Auditor</b>                      | Deloitte Touche Tohmatsu<br>550 Bourke Street<br>Melbourne Victoria 3000                                                                                                                                              |
| <b>Stock exchange listing</b>       | Carbon Revolution Limited shares are listed on the Australian Securities Exchange (ASX code: CBR)                                                                                                                     |
| <b>Business objectives</b>          | In accordance with the Listing Rule ASX 4.10.19, the Directors confirm that the Group has used cash and cash equivalents that are held at the time of listing in a way consistent with its stated business objectives |
| <b>Website</b>                      | <a href="http://www.carbonrev.com">www.carbonrev.com</a>                                                                                                                                                              |



#### **CONTACT INFORMATION**

##### **Carbon Revolution**

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