



Carbon Revolution Limited

Annual Report

2023





Contents

4	Letter from Chair and CEO	51	Consolidated Statement of Comprehensive Income
7	Key achievements for 2022-2023	52	Consolidated Statement of Financial Position
8	Board of Directors	53	Consolidated Statement of Changes in Equity
10	Senior Management	54	Consolidated Statement of Cash Flows
12	Directors' Report	55	Notes to the Financial Statements
29	Remuneration Report	96	Directors' Declaration
45	Other Disclosures	96	Independent Auditor's Report
48	Auditor's Independence Declaration	97	Shareholder Information
49	Corporate Governance Statement	100	Corporate Directory

Carbon Revolution is a global technology company and tier one OEM supplier, which has successfully innovated, commercialised and industrialised the supply of lightweight carbon fibre wheels to the global automotive industry.

Letter from Chair and CEO



James Douglas, Chair

Carbon Revolution has positioned itself as the clear global leader in the production and distribution of lightweight carbon fibre wheels for the automotive industry. FY23 was a year of significant achievement.

On behalf of the Board of Directors, we are pleased to share with you the Carbon Revolution Limited Annual Report for the financial year ending 30 June 2023 (FY23).

Carbon Revolution has positioned itself as the clear global leader in the production and distribution of lightweight carbon fibre wheels for the automotive industry. FY23 was a year of significant operational achievement for Carbon Revolution.

In November 2022 we announced a transformational proposed merger, referred to as the "Transaction", with Twin Ridge Capital Acquisition Corp. The transaction is anticipated to unlock critical investment capital to fund operations, capital expenditure and strategic growth opportunities, support commercialisation and accelerate the path to expected profitability.

The Transaction is in advanced stages and we expect completion of the Transaction in October 2023. Once the Transaction is completed, the Company's shares will be traded on the NASDAQ and shall cease to be quoted on the ASX.

The Company is experiencing strong growth in demand for its carbon fibre wheels. Four programs awarded across FY23, combined with changes to existing awarded programs, have doubled our projected revenue backlog¹ since October 2022 to over A\$970 million. Approximately 50% of the backlog is associated with Electric Vehicle programs. A newly awarded program is with a new customer, a premium brand of a major

European OEM. This has added to our impressive track record, with a cumulative count of 18 awarded wheel programs with six global OEMs, five in aftersales, six in production and seven programs in development.

Other program highlights through FY23 include:

- Ford launched the new Mustang 'Dark Horse' with Carbon Revolution's carbon fibre wheels. This marks Carbon Revolution's first core vehicle program with Ford, demonstrating broader adoption of our lightweight wheel technology.
- General Motors launched the Corvette E-Ray, the second Corvette model will also feature Carbon Revolution wheels as announced in the early second half of the financial year.
- Jaguar Landrover revealed the 2024 Range Rover Sport SV with our wheels. This is Carbon Revolution's debut in the SUV carbon fibre wheel sector, highlighting a remarkable expansion of our advanced lightweight wheel technology into the vast SUV segment.

At the reveal of the vehicle JLR said, "The New Range Rover Sport SV can be specified with world-first ultra-lightweight 23-inch Carbon Fibre Wheels, resulting in improvements to outright performance, handling and ride quality..." and "...While incredibly light, they are engineered and tested to the toughest durability and robustness standards..."

Corvette wheel sales were pushed back by approximately 6 months from early to mid FY23 after General Motors delayed wheel orders due to broader customer supply chain challenges on the vehicle. Initial revenue from this wheel program was included in FY23 following its production start during the third quarter.

In May 2023, a new IP-backed US\$60 million debt program was secured, providing funding for Mega-line automation and capacity expansion, general corporate and other working capital purposes. It was also used to refinance existing debt providers and to pay creditors who had assisted the Company with its liquidity initiatives.

¹Backlog as of 31/10/2022 and 29/5/2023, Backlog (remaining lifetime gross program projected revenue) is based on awarded programs and excludes programs that are contracted for engineering. Please see Disclaimer, Risk Factors and Projection Methodologies for important details. from 6th June 2023 ASX announcement titled "Revised Financial Projections for CY23 and Accompanying Presentation"



Jake Dingle, CEO and Managing Director

Installation and commissioning of the Mega-line is progressing well, and the Company aims to boost throughput rates of newly commissioned equipment.

Last quarter saw production rates rise steadily, with improved reliability and faster processing. Successful testing of two new mould stations, associated resin delivery unit, and rim lay-up equipment is now notably contributing to increased production.

The 2023 financial year saw a revenue of \$38.3m, which was 5% down on FY22 and below the Company's original expectations primarily due to delayed timing of the Corvette program. Shipments resumed progressively for this program from January 2023 and we exited the financial year with strong sales momentum.

Carbon Revolution builds a unique and highly sophisticated product and has an exceptional team and culture which we believe will deliver long-term, profitable growth for our shareholders.

On behalf of the Board, we extend our gratitude to every member of the Carbon Revolution team for their significant contributions and accomplishments throughout the financial year.

The resilience demonstrated by the team in the face of funding challenges is truly commendable.

Finally, we wish to express our sincere appreciation to our customers, suppliers and shareholders for their unwavering and continuous support.

The remarkable journey and ambitious endeavors of Carbon Revolution would not be possible without this invaluable support and loyalty.

A handwritten signature in blue ink, appearing to read 'James Douglas'.

James Douglas
Chair

A handwritten signature in blue ink, appearing to read 'Jake Dingle'.

Jake Dingle
CEO and Managing Director

A close-up photograph of a textured surface, likely a car's interior or exterior. The surface is primarily black with a fine, woven mesh pattern. A prominent feature is a bright yellow, curved component on the left side. On this yellow component, there is a circular logo with a stylized black 'SV' monogram. The lighting is dramatic, highlighting the textures and the vibrant yellow color.

Achievements

Key achievements
for 2022-2023



70,000 wheels sold

on cumulative life-to-date basis (in July 2023)



Four programs awarded during FY23.

All time total awarded programs now 18 with six global OEMs



Backlog has more than doubled

Since October 2022, due primarily to new program awards, and is more than \$970 million. Almost 50% of backlog is for Electric Vehicles



Jaguar Land Rover reveals 2024 Range Rover Sport SV

The first vehicle in the SUV segment featuring Carbon Revolution's carbon fibre wheels



US\$60m IP-backed loan completed

Board of Directors



James Douglas R A
Independent, Non-Executive Chair

Appointed: 25 November 2011

- Over 25 years of investment banking and venture capital experience in Australia and the United States
- Partner of Co:Act Capital and non-executive director of Export Finance Australia
- Prior to his involvement in venture capital, James spent 15 years in investment banking, including as co-head of Global Banking at Citibank (Australia) and Global Head of Consumer Products Investment Banking for Merrill Lynch in New York
- Science degree and Law degree from the University of Melbourne
- Graduate of the Australian Institute of Company Directors



Jake Dingle
Chief Executive Officer,
Managing Director

Appointed: 20 November 2008

- 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



Lucia Cade R
Independent, Non-Executive Director

Appointed: 3 August 2018

- 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), Urban Utilities, Future Fuels CRC, Engineers Australia, Methodist Ladies' College Kew
- Former director of Water Resources Group Limited (renamed to Purifloh Limited) (April 2018 to November 2019)
- Bachelor of Engineering, Bachelor of Economics and Master of Engineering Science from Monash University and an MBA from the Melbourne Business School
- Fellow of Engineers Australia, Fellow of Australian Institute of Company Directors, Member Chief Executive Women

Committee Membership

A Audit and Risk Committee

R Remuneration & Nomination Committee

● Chair of Committee

● Member of Committee



Dale McKee A
Independent, Non-Executive Director

Appointed: 27 September 2018

- Director, Treasurer and Chair of Audit and Risk Committee, Museums Victoria
- Trustee, Marion and EH Flack Trust
- Former senior partner at PwC with extensive experience serving listed companies in audit, accounting, corporate governance, risk management and capital markets matters
- Former member of the Australian Auditing Standards Board
- Bachelor of Business from Federation University
- Fellow of the Institute of Chartered Accountants in Australia and New Zealand



Mark Bernhard R A
Independent, Non-Executive Director

Appointed: 3 June 2019

- 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
- Non-executive director of a not for-profit, Healthy Male, since August 2020 and chair of their Audit and Risk Committee
- Non-executive director of Bapcor (ASX:BAP) since March 2022.
- Studied Transformational Management at Stanford University, MBA from Deakin University and a Business/ Accounting degree from Monash University
- Graduate of the Australian Institute of Company Directors

Senior Management



Jake Dingle

Chief Executive Officer,
Managing Director

Appointed: 20 November 2008

- 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



Gerard Buckle

Chief Financial Officer

Joined: in September 2019

- An experienced senior executive, with a demonstrated capacity to develop and implement strategic plans and improve business performance
- Previous roles at Incitec Pivot Fertilisers, Olex, Repco, Jetstar and Orica, with previous CFO roles at Jetstar, Orica and Olex
- Chartered Accountant, with a Bachelor of Business and a Graduate Diploma of Applied Finance qualifications



Dr Ashley Denmead

Chief Technology Officer

Founder of Carbon Revolution

- More than 18 years of experience in developing and commercialising technology, leading product design and technology direction.
- Experienced in virtual and physical prototyping of composite parts for automotive, marine and industrial applications
- Bachelor of Mechanical Engineering and Computer Science (Deakin University), PhD, Composite materials and processing (Deakin University)



Sam Casabene

Supply Chain and Procurement Director

Joined: in December 2021

- Director of Procurement
- Globally experienced Purchasing Executive with an extensive background in strategic procurement, product development, supply chain management
- Experience in both mature and start-up operations
- Focused on effective supplier relationships, quality and people development to achieve outcomes
- Over 45 years in automotive including Vice President of Purchasing, Ford Australia; Director of Purchasing, Ford ASEAN region (Thailand); and Vice President Purchasing, Vinfast LLC (Vietnam)
- Bachelor of Business (Accounting) RMIT University Melbourne
- Certificate in Logistics, Mt. Eliza Business School



Dave French

Vice President Operations

Joined: in February 2022

- Appointed Vice President Operations in December 2022
- Almost 40 years' auto industry background with positions located in Australia, China, US and Thailand. Previous member of the PAC Group (USA) advisory board with a special interest in business alliance development.
- Extensive experience in business planning and strategy, product program delivery, product development systems and manufacturing plant management.
- Bachelor of Engineering (Mechanical) from Adelaide University (Hons).



Andrew Higginbotham

Director Operations

Joined: May 2021

- Previously an operations leader with Ford Motor Company progressing to Operations Director and Plant Manager leading up to 1400 employees with an operating budget of \$90million
- Leadership roles in assembly, machining, stamping and quality operations with experience in the United States and Japan and also a member of the Australian Executive Committee
- Divisional General Manager of Motorised Division at Jayco leading production, R&D, purchasing and sales functions
- Masters in Advanced Manufacturing from RMIT, and First Class Honours in Bachelor of Mechanical Engineering at Monash University



Jesse Kalkman

Vice President - North America

Joined: in August 2022

- An experienced Sales Executive with over 30 years in the Automotive Industry at multiple Tier 1 suppliers varying in size and products manufactured. Extensive experience supporting a global customer base.
- Began career in Engineering and Program Management prior to transitioning to Sales. Led the Global Sales and Marketing Team at Nexteer Automotive. Most recently led the Sales team at Mobex Global.
- Bachelor of Science in Mechanical Engineering from Kettering University, MBA from Northwood University.



David Nock

General Counsel and Company Secretary

Joined: in August 2017

- Appointed Company Secretary in September 2017
- Previous roles with listed Australian, US and European entities including Regional Commercial Director, Oakley Asia Pacific (Luxottica Group S.p.A.), Regional General Counsel, Quiksilver Asia Pacific (Quiksilver, Inc.), and roles at Publishing & Broadcasting Limited and Village Roadshow Limited
- Arts and Law Degrees (Hons) from the University of Melbourne and an MBA from the Melbourne Business School (Dean's List)

Directors' Report

In November 2022, Carbon Revolution announced a proposed merger, referred to as the "Transaction", with Twin Ridge Capital Acquisition Corp. The Transaction, and subsequent access to U.S. capital markets, is anticipated to unlock critical investment capital to fund operations, capital expenditure and strategic growth opportunities, support commercialisation and accelerate the path to expected profitability.

The Transaction is expected to complete in October 2023. At completion of the Transaction, Carbon Revolution will be acquired by Carbon Revolution plc, an Irish company whose shares are expected to trade on NASDAQ and the Company's shares will cease to be quoted on the ASX.

About

Carbon Revolution ("Carbon Revolution" or the "Company" or the "Group") was established in 2007 and is an Australian technology company that designs and manufactures advanced carbon fibre wheels. Carbon Revolution is the first company in the world to have successfully developed and manufactured single-piece carbon fibre wheels to original equipment vehicle manufacturer (OEM) quality standards, with commercial adoption across several major OEM vehicle platforms.

The Company protects the design and manufacture of its wheels – some of the world's most complex carbon fibre products – with over 90 patents and precious IP.

Carbon Revolution's principal operations, which include its corporate office and manufacturing facility, are in Geelong, approximately 75 kilometres from Melbourne, Australia. The Geelong facility, spanning 10,000m², holds quality accreditation according to the international automotive supply standard IATF 16949, and has also attained ISO Quality and Environmental accreditation.

To cater for existing and prospective customers – global OEMs (Original Equipment Manufacturers, or global car makers), Carbon Revolution has staff stationed in North America and Europe. Since its first OEM program for Ford in 2015, the Company has progressively increased production capacity to meet increasing OEM demand. With over 70,000 wheels on the road, Carbon Revolution indisputably holds a leading global position in manufacturing lightweight carbon fibre wheels.

The Company has positioned itself as the clear global leader in the production and distribution of lightweight carbon fibre wheels for the automotive industry. Financial Year 2023 (FY23) was a year of significant operational achievement for Carbon Revolution.

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 through 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 Company has prioritised the automotive new vehicle wheel market, where its lightweight wheels deliver substantial performance and efficiency benefits. The business works closely with its customers to introduce, design and develop new wheels. The business model is based on concurrently developing materials, products and processes with the aim of lowering costs and increasing volume in industrialised production lines.

Carbon Revolution's wheel technology is desirable among OEMs and their customers because it delivers strong, durable, and attractive wheels, which weigh up to 40–50% less than their aluminium equivalents. Reducing wheel mass has significant benefits for a vehicle's overall efficiency, as it reduces the vehicle's unsprung weight and rotational inertia.

Since the first Carbon Revolution wheel was released to the market in 2009, the performance benefits associated with improving wheel efficiency are well accepted and are leading to adoption by OEMs including Ford, Ferrari, General Motors, Renault and Jaguar Land Rover in their performance and premium/luxury vehicle categories.

As the automotive market rapidly transitions to electric vehicles (EVs), Carbon Revolution's efficiency technology is viewed as an ideal enabler of range extension, both through weight savings and aerodynamics. A significant proportion of wheels currently under development are for EV applications.

Driving this expansion is an increased understanding of the significant efficiency benefits of this lightweight technology and a desire to increase range without adding further mass and cost to a vehicle through additional batteries.

Carbon Revolution's growth focus includes adding higher volume OEM wheel programs for EVs, including larger formats such as SUVs and light trucks, to complement its high-performance program portfolio.

Wheel Program Portfolio

The Company is experiencing strong growth in demand for its carbon fibre wheels. Four programs awarded across FY23, combined with changes to existing awarded programs, have doubled the Company's projected revenue backlog¹ since October 2022 to over \$970 million. Approximately 50% of the backlog is associated with Electric Vehicle programs.

One newly awarded program is with a new customer, a premium brand of a major European OEM. This has added to our impressive track record, with a cumulative count of 18 awarded wheel programs with six global OEMs, six in production, seven programs in development and five in aftersales.

¹Backlog as of 31/10/2022 and 29/5/2023. Backlog (remaining lifetime gross program projected revenue) is based on awarded programs and excludes programs that are contracted for engineering. Please see Disclaimer, Risk Factors and Projection Methodologies for important details. from 6th June 2023 ASX announcement titled "Revised Financial Projections for CY23 and Accompanying Presentation."

Directors' Report

Continued

1.1 Wheel Program Portfolio

The Company is experiencing strong growth in demand for its carbon fibre wheels. Four programs awarded across FY23, combined with changes to existing awarded programs, have doubled the Company's projected revenue backlog¹ since October 2022 to over \$970 million. Approximately 50% of the backlog is associated with Electric Vehicle programs.

One newly awarded program is with a new customer, a premium brand of a major European OEM. This has added to our impressive track record, with a cumulative count of 18 awarded wheel programs with six global OEMs, five in aftersales, six in production and seven programs in development.

Stage of Program Life Cycle Number of Programs		August 2023 ¹	August 2022 ²	Comments
Awarded programs in production		6	6	Corvette Z06/Z07 program commenced production
Programs in development	Electric Vehicles	2	0	
	ICE ³ Premium Vehicles	5	4	
Total active awarded programs		13	10	
	Programs in Aftersales	5	3	
Total Lifetime programs		18	13	

¹As of 31 August, 2023 and (2) As of 29 August, 2022. (3) ICE represents internal combustion engine vehicles (including hybrids)

Other program highlights through FY23 include OEM clients adopting our wheels on their premium, most technologically advanced vehicle programs:

- Ford launched the new Mustang 'Dark Horse' with Carbon Revolution's carbon fibre wheels. This marks Carbon Revolution's first core vehicle program with Ford, demonstrating broader adoption of our lightweight wheel technology.
- General Motors' Chevrolet Corvette E-Ray, the second Corvette model will also feature Carbon Revolution wheels as announced early in the second half of the financial year. The E-Ray will be the first Corvette to utilise electric power in addition to its V8 engine, and the first all-wheel drive Corvette.
- Jaguar Land Rover revealed the 2024 Range Rover Sport SV with Carbon Revolution carbon fibre wheels. This is Carbon Revolution's debut in the SUV carbon fibre wheel sector, highlighting an important expansion of our advanced lightweight wheel technology into the SUV segment.

1.2 Technology and Mega-line

In FY23 the first phase of the Mega-line was commissioned and installed and producing customer wheels. In the final months of FY23, the production rate steadily increased, with improved reliability and tool loop cycle times. We exited the year with strong production cost improvement following the Mega-line commissioning and increased volumes. Contribution margin increased by 33% to \$2.5m in FY23 driven by improved Q4 operating performance. The Company subsequently passed 70,000 cumulative wheels sold in July 2023.

With increasing customer demand for our wheels, as evidenced by the record number of active programs, and the first stage of the Mega-line development now in operation, we believe the Company is well positioned to deliver on its potential and purpose, supported by additional Mega-line capacity being added through to 2025.

¹Backlog as of 31/10/2022 and 29/5/2023, Backlog (remaining lifetime gross program projected revenue) is based on awarded programs and excludes programs that are contracted for engineering. Please see Disclaimer, Risk Factors and Projection Methodologies for important details. from 6th June 2023 ASX announcement titled "Revised Financial Projections for CY23 and Accompanying Presentation"

1.3 New Debt Program

Improved access to international capital markets is being progressed. In addition to progressing the Transaction, in May 2023 a new US\$60 million debt program (New Debt Program) was secured providing funding for Mega-line automation and capacity expansion, general corporate and other working capital purposes. It was also used to refinance existing debt providers and to pay creditors who had assisted the Company with its liquidity initiatives.

1.3 Revenue

FY23 revenue of \$38.3m was 5% down on FY22 and below the Company's original expectations primarily due to timing of the Corvette program. Shipments for this program resumed progressively beginning January 2023 and we exited the financial year with strong sales momentum.

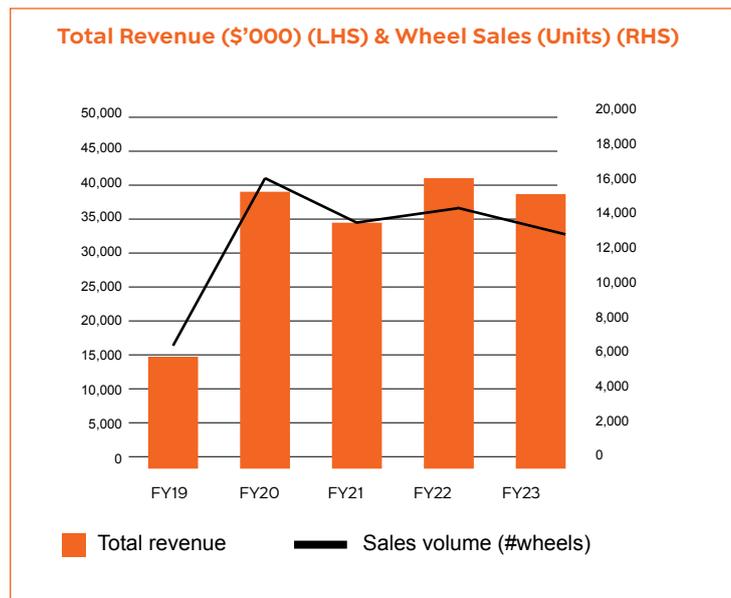
Initial revenue from the newly launched Range Rover Sport SV program was included in FY23 following production commencing in the third quarter of FY23.

The average price of wheels sold in FY23 was \$2,847, a 6% increase on FY22 due primarily to product mix changes.

1.4 Talent and Engagement

Carbon Revolution continues to develop a committed, innovative and diverse team capable of transforming the performance and sustainability of the world's vehicles.

During the year, the Company has increased headcount at the Australian facility by almost 200 people to over 560 – primarily to support increased production levels as well as an increased level of program development activity.



Directors' Report

continued

1.5 Financial Review

Consolidated Statement of Comprehensive Income

	Consolidated		
	FY23 \$m	FY22 \$m	change \$m
Sale of wheels	37.5	38.2	(0.7)
Engineering services and tooling	0.8	2.1	(1.3)
Total revenue	38.3	40.3	(2.0)
Cost of goods sold	55.1	57.4	(2.3)
Gross loss	(16.8)	(17.1)	0.3
% of total revenue	(44%)	(42%)	(2%)
Research and development	16.2	16.9	(0.7)
Selling, general and admin	19.1	16.7	2.4
Capital raising transaction costs	24.7	-	24.7
Total expenses	60.0	33.6	0.7
Other income	3.1	4.3	(1.2)
Net interest expense	5.5	1.4	4.1
Loss after tax	(79.2)	(47.8)	(31.4)

Carbon Revolution reported a loss after tax of \$79.2m (FY22: loss \$47.8m). Key movements from the prior year include:

Sales revenue decreased by 5% to \$38.3m following:

- Corvette wheel sales were pushed back by approximately 6 months, from early to mid-FY23 after General Motors delayed wheel orders due to supply chain challenges on the vehicle.
- Average price per wheel increased 6% to \$2,847 primarily due to product mix changes, partially offsetting delayed wheel orders.

As supply chain issues are gradually resolved, production rates are expected to rise. We are confident that the strong demand for our wheels and the nearing completion of the proposed merger will provide a clear path for Carbon Revolution's long-term profitability and growth.

Gross loss improved to \$16.8m from \$17.1m in FY22. Cost of Goods Sold (COGS) per wheel increased 6% to \$4,126 per wheel in FY23.

Selling, general and administrative expenses increased by \$2.4m to \$19.1m as inflationary pressures on these expenses were offset by a focus on cost control.

Research and development expenses decreased by 4% to \$16.2m.

Other income decreased by 28% to \$3.1m.

Finance costs of \$5.5 million and capital raising costs of \$24.7 million were incurred in FY23 to support the New Debt Program and the Transaction. These higher finance and capital raising costs substantially contributed to the increased loss after tax of \$79.2 million, compared with a loss of \$47.8 million in FY22.

Supply chain issues (GM) are gradually being resolved allowing expected production rates to rise. We are confident that the strong demand for our wheels and the nearing completion of the proposed merger will provide a clear path for Carbon Revolution's long-term profitability and growth.

1.6 Cash Flow

	FY23 \$m	FY22 \$m	Change \$m
EBIT	(73.7)	(46.4)	(27.3)
Change in working capital and other	35.4	(5.9)	41.3
Net interest paid	(5.5)	(1.4)	(4.1)
Other non-cash items in EBIT	(8.7)	7.8	(16.5)
Net cash used in operating activities	(52.5)	(46.0)	(6.5)
Capital Expenditure	(13.1)	(15.6)	2.6
Intangible Expenditure	(4.9)	(6.0)	1.2
Net cash used in investing activities	(18.0)	(21.6)	3.6
Net cash from financing activities	66.5	3.3	63.2
Net cash inflows/(outflows)	(4.0)	(64.3)	60.2

Net cash used in operating activities increased to \$52.5m from \$46.0m with increases in receipts from customers of \$12.1m and government grants of \$11.7m respectively which included a level of early payments arising from liquidity initiatives. These were offset by increases in borrowing costs of \$20.7m related to initial cost of the new debt program and \$9.0m of transaction costs.

Net cash used in investing activities decreased by 16.9% to \$18m. While the Company continued to support Mega-line milestones and invested in program development, management of cash expenditure and collections was a priority focus throughout the year given balance sheet constraints, especially before the completion of the New Debt Program in May 2023.

Net cash provided by financing activities significantly increased by \$63.2m, arising primarily from the net proceeds of the New Debt Program.

Net Debt

	FY23 \$m	FY22 \$m	Change \$m
Net Debt Position			
Total loans and borrowings	84.7	23.0	61.7
Less: Cash and cash equivalents	(19.6)	(22.7)	3.1
Less: Restricted trust fund	(14.7)	-	(14.7)
Net debt/(cash)	50.4	0.3	50.1

Directors Meetings

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

	Board Meetings eligible to attend	Attended	ARC meetings eligible to attend	Attended	RNC meetings eligible to attend	Attended
James Douglas	24	24	8	8	5	5
Jake Dingle	24	24	-	-	-	-
Lucia Cade	24	24	-	-	5	5
Dale McKee	24	24	8	8	-	-
Mark Bernhard	24	24	8	8	5	5

Directors' Report

continued

1.7 Business Risks

Risk	Description of Risk and Potential Consequences
Carbon Revolution requires substantial additional funds to continue operating as a going concern and the funding which the business requires may not be available as expected or when required under existing facilities which Carbon Revolution has entered into and Carbon Revolution may not otherwise be able to raise any further required financing on favourable terms, or at all	<p>To cover anticipated cash outflows over the 12 months commencing 1 October 2023 and to allow the Combined Group to continue as a going concern, A\$42.3 million is required to be raised over that period including through use of the CEF (the requirement to raise A\$42.3 million is in addition to the funding expected to be received under the Initial Tranche of the SEF, which is discussed below, but there is no guarantee the Initial Tranche will be received for the reasons discussed below).</p> <p>MergeCo has entered into agreements for a Structured Equity Facility (SEF) for up to US\$110m in funding with OIC Structured Equity Fund I Range, LLC and OIC Structured Equity Fund I GPFA Range, LLC (fund vehicles affiliated with Orion Infrastructure Capital (OIC), under which, subject to the satisfaction or waiver of a number of conditions (including Implementation), Carbon Revolution plc (Irish company number: 607450) (MergeCo) will issue Class A Preferred Shares in MergeCo (Preferred Shares) and a warrant (SEF Warrant) to OIC in exchange for initial gross proceeds of US\$35 million (A\$54.7 million) (Initial Tranche), with further proceeds to be available in tranches, comprising of up to US\$35 million (A\$54.7 million) that will be deposited by OIC in an escrow account (Reserve Funds), which funds are subject to release upon satisfaction of further conditions and up to a further US\$40 million (A\$62.5 million) in aggregate proceeds upon satisfaction of further conditions (Subsequent Financing) to be used for the development, construction, and/or retooling of future manufacturing facilities. The Preferred Shares will result in OIC being provided with substantial positive and negative control rights in respect of MergeCo, and the SEF Warrant will entitle OIC to be issued up to 19.99% of the MergeCo Shares on issue on Implementation on a fully diluted basis.</p> <p>There is no guarantee Carbon Revolution or MergeCo (as applicable), will receive any or all of the funding under the SEF or otherwise meet its Cash Flow Projection for reasons including the following (the occurrence of any or all of which may impact or prevent Carbon Revolution (or MergeCo) from achieving its Cash Flow Projection):</p> <p>the Company may not receive the customer support it may require, or management of capital expenditure may not be possible without impacting supply obligations to customers and ability to meet the Financial Projections;</p> <ul style="list-style-type: none">• the Transaction may not be Implemented, or may be materially delayed;• there may be little or no cash remaining in the SPAC Trust Account upon Implementation if redemptions of Class A SPAC Shares are higher than expected;• there may be a delay in the availability of the CEF (the CEF will not be available until after Implementation and the filing by MergeCo with the SEC of a registration statement for the resale of the MergeCo Shares, and such registration statement being declared effective by the SEC);• as the terms of the CEF will not require Yorkville to purchase additional shares under the CEF beyond an overall ownership of 9.99% (the CEF Ownership Restriction) the Combined Group may have access to materially less than the US\$60 million (A\$93.8 million) headline figure of the CEF;• MergeCo may not be able to satisfy the conditions precedent required to access funding under the SEF when expected or at all and OIC may not provide waivers in respect of any such failures;• MergeCo is required to obtain consent from OIC to raise debt financing or other forms of financing excluding equity financing. In respect of equity financing, OIC is entitled to restrict MergeCo and the Combined Group from raising equity financing in certain circumstances;• the Combined Group may therefore not be able to raise further financing including further equity financing from sources other than the SEF or CEF, in the amounts and within the timeframes necessary for the Combined Group to remain solvent and to comply with its liquidity covenants, on satisfactory terms, or at all; and• the Cash Flow Projection is subject to achievement of the Financial Projections of Carbon Revolution for CY23 and CY24 and the accompanying assumptions and risks applicable to these financial projections detailed in section 3.3 of our Supplementary Scheme Booklet dated 29 September 2023. <p>Should there be a material delay in the timing of Implementation of the Transaction or should Implementation not occur at all (including if Carbon Revolution ceases to be funded before Implementation or breaches its liquidity covenant under the New Debt Program and the Servicer exercises its rights under the New Debt Program), this would have adverse implications for Carbon Revolution, Carbon Revolution Shareholders and creditors of Carbon Revolution.</p>

As Carbon Revolution is not yet profitable and does not yet derive positive net operating cash flows (and does not expect to be profitable or be able to derive positive net operating cash flows in the 12 month period of the Cash Flow Projection), if Implementation of the Transaction is materially delayed beyond October 2023 or it is not completed, in order to remain viable, Carbon Revolution will need to seek other funding and liquidity options, if the required financing cannot be obtained under the SEF or CEF (such funding will not be available at all if the Implementation of the Transaction does not occur), and such other funding or liquidity options may not be available on favourable terms, or at all.

Further, in the context of the New Debt Program, if the Transaction is delayed and Carbon Revolution does not raise additional funds through other sources, Carbon Revolution is likely to breach the liquidity covenants in the New Debt Program documentation and therefore be reliant on the Servicer waiving such default in order to avoid the consequences of a default. Furthermore, subject to the length of the delay, Carbon Revolution could fail to cure, within the provided 60 day time period, the breach of the covenant in the New Debt Program Documents to complete the Transaction by 30 September 2023 (in other words, Carbon Revolution could fail to complete the Transaction by 30 November 2023).

As noted above, MergeCo must satisfy certain conditions precedent to access funding under the SEF and other impediments to closing (including Implementation), including some that are beyond our control. The conditions precedent to closing the Initial Tranche, for example, include being approved for listing on Nasdaq or NYSE American. If we cannot satisfy the required conditions precedent then we will not be able to access any funding under the SEF unless OIC grants us waivers or agrees to vary the relevant conditions precedent. In addition, Subsequent Financing under the SEF may be available within twenty-four months following the closing of the Initial Tranche, with such proceeds to be used for the development, construction, and/or retooling of future manufacturing facilities. The conditions precedent for closing any such Subsequent Financing include MergeCo's adherence with certain conditions, including adhering to an OIC-approved budget and delivery of a capex plan to OIC regarding the use of the Subsequent Financing proceeds, as well as the approval of the transaction by OIC's investment committee in its sole discretion. Similarly, closing the release of Reserve Funds is subject to the satisfaction of certain performance metrics and/or the obtaining of additional financing by Carbon Revolution. There are no assurances that the closing conditions to the Initial Tranche, the Reserve Funds or any Subsequent Financing under the SEF will be satisfied.

If we are unable to meet the closing conditions for one or more of the Initial Tranche, the Reserve Funds or any Subsequent Financing, unless we are able to procure waivers, if required, we may be forced to renegotiate the SEF funding arrangements on less advantageous terms and we could fail to consummate funding under the SEF at all. If we are unable to close funding under the SEF, it would significantly alter our business strategy, impede our prospects for growth and we may become illiquid. Further, we may not be able to identify suitable financing to replace SEF, and even if we were to do so, we may only be able to consummate them on less advantageous terms or we may not be able to consummate any such alternative financing at all.

Should the Transaction be Implemented but sufficient liquidity not be secured through the above funding initiatives, or should there be a delay in the timing of securing funds through these funding initiatives, this would have adverse implications for the Combined Group, MergeCo Shareholders and its creditors. In these scenarios, the Combined Group will need to seek other options, including delaying or reducing operating and capital expenditure, seeking waivers in respect of potential covenant breaches, the possibility of an alternative transaction or fundraising, and in the event that none of these are available, external administration, liquidation or examinership (the Irish equivalent of voluntary administration).

Carbon Revolution is not yet profitable or cash flow positive and it may take longer to reach profitability or become cash flow breakeven than anticipated or that may never occur

Based on the factors above, a material uncertainty exists which may cast significant doubt as to whether Carbon Revolution, MergeCo and the Combined Group will continue as a going concern and therefore whether they will realise their assets and discharge their liabilities in the normal course of business and at the amounts stated in the financial statements.

As an early-stage business Carbon Revolution is in the process of scaling up manufacturing operations to profitable levels. At current levels the operations of the business use more cash than they generate. In addition, cash is required to fund capital expenditure, in particular for building the mega line and debt servicing.

If Carbon Revolution achieves a positive EBITDA, it will not immediately lead to positive cash flows. The time lag is predominantly created by timing of receipts from customers, use of funds for investment in capacity expansion and servicing debt.

There is a risk that this EBITDA outcome may not occur, for example if raw material and labour costs exceed expectations or other key business objectives are not achieved, including:

- a reduction in labour hours per wheel;
- a reduction in material cost per wheel;
- maintenance of existing operating costs; and
- targeted increases in wheel prices charged to customers on certain existing wheel programs and maintenance of the current wheel prices Carbon Revolution charges its customers on all other wheel programs.

It may also take longer than expected for Carbon Revolution to reach the annual wheel sales required to achieve positive EBITDA, for example,

- due to lower than expected customer demand,
- delays in customer programs or
- an inability to scale up its production.

The failure to achieve profitability at this wheel volume or at all will adversely impact Carbon Revolution's financial performance and prospects.

As discussed above Carbon Revolution does not yet generate positive cash flows from operating activities. As such, it will need to rely on other sources of funding to meet its operational requirements, this includes external financing.

Carbon Revolution is subject to financing risks, including risks under the New Debt Program and the SEF

In May 2023, Carbon Revolution Operations Pty Ltd borrowed US\$60 million (New Debt Program). There are a number of risks associated with this New Debt Program, including the following.

Meeting ongoing interest monthly interest payments and principal repayments of US\$2.0 million per month from January 2025.

In addition to interest payments, Pius Additional Monthly Fee (as disclosed in our Scheme Booklet dated 6 September 2023) will also be payable if MergeCo has not completed a Qualified Capital Raise before 31 December 2023, provided however, that if Carbon Revolution has failed to do that but the Transaction has been completed by 30 November 2023, then Carbon Revolution will not be liable for the Pius Additional Monthly Fee and will instead be liable for a fee of US\$1.5 million (A\$2.3 million) which will be payable on the earlier of Carbon Revolution refinancing or repaying the New Debt Program and the Maturity Date thereof (1 May 2027). The interest payments and principal repayments under the New Debt Program, and if Carbon Revolution is liable for the Pius Additional Monthly Fee then the Pius Additional Monthly Fee as well, may place significant pressure on cash flows, in particular if Carbon Revolution is not operating cash flow positive by this point. These payments will divert available cash from use on other purposes, for example research and development or capital expenditure, and may ultimately impact the ability of the Carbon Revolution Business to meet its operational goals.

Further, if there is an event of default under the New Debt Program and any such breach is not waived or Carbon Revolution is unable to or does not have a right to cure such breach, this may lead to acceleration of the repayment of all principal and interest and any additional amounts owing, or lead to enforcement of security interests over Carbon Revolution's assets.

Breaches of the New Debt Program could occur due to or result wholly or partially from matters outside of Carbon Revolution's control.

The New Debt Program also contains other terms which may adversely impact Carbon Revolution (and MergeCo, should Implementation occur), for example covenants which restrict the ability of the applicable board to operate the business. Furthermore, the New Debt Program provides that a change in control of Carbon Revolution or MergeCo (as applicable) will constitute an event of default which requires repayment of

the principal and any accrued interest under the New Debt Program, which may act to dissuade third parties from seeking to acquire Carbon Revolution (or MergeCo). It is also a deemed change of control (even if no offer has been received for Carbon Revolution or MergeCo) if Ashley Denmead (Carbon Revolution's current Chief Technology Officer) ceases to be involved in the day to day operations of Carbon Revolution Operations (for any reason other than death or permanent disability) and appointment of a successor reasonably acceptable to Servicer does not occur within 90 days (if this occurs prior to Implementation) or 120 days (if this occurs prior to Implementation).

Carbon Revolution's ability to raise funds to meet its operational requirements and also to repay amounts owing under, or refinance, the New Debt Program and its other creditors, through either debt or the issue of securities, will be subject to factors beyond the control of Carbon Revolution and its Directors, including obtaining OIC consent under the agreements for the SEF, if required, and other matters including cyclical factors affecting the economy and capital markets. There is no guarantee that such funding, whether debt, equity or otherwise, will be obtained or available on favourable terms, or at all.

Any equity funding may be materially dilutive to existing shareholders, and debt funding (if OIC consents to the Combined Group incurring debt funding) may involve restrictions on financing and operating activities and have higher than expected interest and financing costs. Any inability to raise funds when required may adversely impact on the financial performance and prospects of Carbon Revolution (or MergeCo, following Implementation), in particular if the security granted under the New Debt Program is enforced as discussed above.

Until Carbon Revolution is generating sufficient positive cash flows from its operations (if that is achieved), if at any time Carbon Revolution does not have and is unable to raise sufficient external funding to refinance the New Debt Program or to otherwise continue repaying the principal, interest and any additional amounts owing to the Servicer under the New Debt Program and to continue funding its operations, Carbon Revolution and MergeCo may cease to remain viable and may enter external administration, liquidation or examinership (the Irish equivalent of voluntary administration).

SEF agreements include obligations and other financial and operating covenants that place restrictions on MergeCo. For example, prior to the closing of the Initial Tranche (Initial Closing), MergeCo is required to operate its business in the ordinary course of business and is restricted from incurring fees, expenses, costs or other liabilities in excess of a budget approved by the Board and OIC without the consent of OIC. In addition, prior to the Initial Closing, MergeCo has agreed to not directly or indirectly solicit or initiate additional interest for a Competing Transaction (as defined in the Securities Purchase Agreement with OIC) or participate in discussions or negotiations with another party with respect to a Competing Transaction. Further, MergeCo has provided OIC a right of first offer in respect of certain financing for 24 months from the Initial Closing date and agreed to use best efforts to obtain aggregate gross proceeds of \$20 million in one or more transactions by a certain date. From the Initial Closing and until all of OIC's Preferred Shares are redeemed in full, the MergeCo Board of directors cannot undertake certain matters without the prior written consent of the Preferred Shareholders holding a majority of the Preferred Shares then on issue, including, but not limited to, the issuance of securities having rights senior or pari passu to the Preferred Shares, the entry into a material contract, the disposal of assets above a certain amount, undertaking a change of control transaction, senior management changes, the adoption of an operating or capital expenditures budget, incurring general and administrative expenses above amounts set forth in a budget, making capital expenditures above a certain amount or entering into joint ventures. These restrictive covenants reduce our flexibility in conducting our operations, limit our flexibility in planning for, or reacting to, changes in our business and industry, and limit our ability to engage in activities that may be in our long-term best interest, including the ability to take advantage of other business opportunities that may arise, any of which could materially adversely affect our growth prospects, future operating results and financial condition.

Additionally, the MergeCo Amended and Restated Memorandum and Articles of Association includes that upon certain triggers, including the failure to effect a mandatory redemption, failure to obtain a Share Capital Reduction Order, failure to obtain the required Preferred Shares consent before taking certain corporate governance actions, and failure to abide by the right of first offer requirements in OIC Purchase Agreement (Springing Rights Events), the majority of Preferred Shares shall be entitled to appoint two directors of MergeCo and shall be entitled to direct the directors of the MergeCo on certain matters, including the entrance into, termination of, or amendment to certain material contracts, determination of operating and capex budgets, actions related to management hiring, termination, and compensation, issuance or redemption of securities, and the initiation or undertaking of a change of control transaction, among other matters. If a Springing Rights Event were to occur, subject to applicable fiduciary duties, we would have reduced flexibility in conducting our operations and limits on our ability to engage in activities that may be in our long-term best interest, including entering into certain contracts, determining our budgets, actions related to hiring, the issuance and redemption of securities or a change of control transaction, any of which could materially adversely affect our growth prospects, future operating results and financial condition. In addition, in exercising their rights under the SEF agreements, OIC may have different interests than MergeCo shareholders and may exercise these consent rights in ways that are adverse to the interests of MergeCo shareholders.

Carbon Revolution's expected growth depends on several assumptions relating to demand for its wheels.

Carbon Revolution may not be able to sign new customer contracts, sales under new contracts may occur later or be lower than expected, launches of wheels under existing contracts may be delayed, existing customer contracts do not contain take or pay provisions and Carbon Revolution's customers may not order wheels to the volume or at the price as expected

Demand for Carbon Revolution's wheels may be lower than anticipated due to an inability to sign new OEM contracts, sales under new contracts may occur later or be lower than expected, launches of wheels under existing contracts not yet in production may be delayed, or because Carbon Revolution's current OEM supply contracts, which are typical of the industry, are not take-or-pay contracts.

Carbon Revolution may not be able to sign new contracts for a range of reasons, including competition, the price of its wheels being too high, lack of funds necessary to deliver required wheel volumes or potential customers being concerned about Carbon Revolution's ability to deliver required wheel volumes.

New contracts may be signed later than expected, or may result in smaller programs than expected, again for a range of reasons including the customer changing its launch timelines and sales and marketing strategy. Awarded programs that are currently in development may be delayed, for a range of reasons, including the customer changing its launch timelines and sales and marketing strategy, or Carbon Revolution experiencing delays in developing a wheel or bringing it to production.

In relation to existing awarded customer contracts, customers are under no obligation to purchase a minimum number of wheels and there is no guarantee that Carbon Revolution will secure the sales volume it anticipates from its existing customer contracts. While Carbon Revolution customers provide forecasts containing expected wheel take-rates, these are non-binding and can be materially changed by the customer at any time. Therefore, there is a risk that Carbon Revolution's projected revenues from awarded programs will not eventuate at the expected levels, if at all. Where customers vary their order volumes, this may adversely impact Carbon Revolution's financial performance and prospects.

By comparison to Carbon Revolution's arrangements with its customers, Carbon Revolution's supplier arrangements require significantly longer lead times. This may result in situations where Carbon Revolution has increased or reduced investment in raw materials and labour to meet customer forecasts, which are then materially changed by the customer with minimal notice. Where an OEM customer orders more than forecast, this may impact Carbon Revolution's ability to fulfil the order, or otherwise require investment in additional materials and labour at a higher cost. Conversely, where the OEM customer orders less than forecast, this may result in additional overheads including increased storage costs or unused raw materials, which may impact Carbon Revolution's financial performance.

Customers have previously provided orders that were materially higher or lower than expected. As noted above, both scenarios may result in higher costs per wheel and cost inefficiencies. There is usually only a very limited ability to recover these costs. That in turn may have a material adverse impact on Carbon Revolution's financial performance and prospects. Consistently materially lower orders than expected in a period will also have a material impact on Carbon Revolution's ability to generate revenue.

Orders made by OEM customers under OEM supply agreements may be lower than forecast by Carbon Revolution for reasons outside Carbon Revolution's control, including if demand for the OEM's vehicle (on which Carbon Revolution's wheels are included) is lower than expected or, where Carbon Revolution's wheels are an option on the relevant vehicle, customers elect to purchase the option less frequently than anticipated (resulting in the "take rate" of Carbon Revolution wheels by OEMs being lower than anticipated). As the "take rate" of Carbon Revolution's wheels is directly referable to its sales volumes, margin per wheel and revenue, decreased "take rates" may adversely impact on Carbon Revolution's financial performance and prospects.

Exposure to cost increases in Carbon Revolution's supply chain and other supply chain disruptions (including delays in revenue recognition) may adversely affect Carbon Revolution's profitability, cash flow, operations and financial performance

The industry standard customer contract provisions are in favour of Carbon Revolution's customers, this limits the ability for Carbon Revolution to pass on cost increases to customers. If Carbon Revolution cannot pass on price increases of its suppliers to its customers, Carbon Revolution's profitability and margin per wheel may be impacted which, in turn, may result in a failure to meet forecasts, and adversely affect Carbon Revolution's financial performance and prospects.

Claims may also damage Carbon Revolution's relationships with its customers and impact its ability to obtain wheel program awards.

Supply agreements with Carbon Revolution's customers also may contain terms that oblige Carbon Revolution to deliver the wheels to the customer's overseas facilities (instead of making wheels ready for dispatch at Carbon Revolution's facilities) before Carbon Revolution is entitled to claim payment of the price and recognise the individual sale as revenue. Shipping times can take up to several months. As such, Carbon Revolution's financial results may be adversely impacted if revenue is recognised upon delivery to customers. In the past, Carbon Revolution customers have occasionally raised claims for late delivery of wheels or for

Risk continued	Description of Risk and Potential Consequences
Carbon Revolution may not be able to achieve its manufacturing quality, volume and cost targets	<p>wheels that do not meet the customer's specifications.</p> <p>On occasion, Carbon Revolution's supply contracts contain supplier-friendly provisions that make it difficult for Carbon Revolution to enforce delivery on time or in strict compliance with the quality requirements Carbon Revolution imposes on its suppliers. Where a customer makes a claim relating to the timeliness or quality of wheels, which is indirectly caused by a supplier, Carbon Revolution may also not be able to recover all of these losses from the relevant supplier.</p> <p>Claims by a customer for which Carbon Revolution has no or limited recourse may impact Carbon Revolution's profitability and could have a material adverse effect on Carbon Revolution's financial performance and prospects.</p>
Carbon Revolution may not be able to increase its capacity to service customer demand, or Loss or failure of key manufacturing infrastructure or equipment may impact Carbon Revolution's operations	<p>Carbon Revolution is not yet profitable and currently does not generate sufficient cash flow from its operations to fund those operations. In order to become profitable, Carbon Revolution will need to, among other things, increase the scale of its operations and decrease its labour costs per wheel. To leverage economies of scale, Carbon Revolution intends to automate and industrialise its operations to increase its wheel production volumes and to decrease its production cost per wheel. This process poses a significant engineering challenge as it involves simultaneous engineering of product, materials, processes and equipment..</p> <p>Carbon Revolution's ability to achieve these objectives is largely dependent on the success of the Mega-line project which, if completed, is expected to deliver improvements to Carbon Revolution's overall wheel production volumes and underlying unit economics (being the direct revenues and costs associated with the Carbon Revolution Business measured on a per wheel basis). However, the completion of the Mega-line industrialisation process may take longer than expected, may not fully deliver the expected benefits, may cost more than expected or may be disrupted by unforeseen engineering issues. Furthermore, the equipment required to build the Mega-line is highly specialised and bespoke, meaning delays may be experienced in the commissioning of new equipment required for the Mega-line. Delays, unexpected costs or failing to realise the full benefits expected from the Mega-line may impact Carbon Revolution's ability to meet its forecasts, and may impact Carbon Revolution's profitability and could have a material adverse effect on Carbon Revolution's financial performance, general prospects and competitive position.</p> <p>When the Mega-line is complete, Carbon Revolution expects to use the Mega-Line to for production of larger volume OEM wheel programs. Therefore, there is a risk that delays in the expected increases in production capacity from the Mega-line may also cause Carbon Revolution to forego larger volume OEM wheel programs. This may adversely impact the future operational and financial performance of Carbon Revolution.</p>
Loss or failure of key manufacturing infrastructure or equipment may impact Carbon Revolution's operations	<p>Carbon Revolution's manufacturing process requires highly specialised and bespoke equipment that is expensive and difficult to replace. This equipment may break down or be otherwise impacted by events either within or outside of Carbon Revolution's control. The failure or poor performance of equipment may result in production delays, increases to cost per wheel or an inability to meet customer requirements.</p> <p>Any significant or sustained interruption to Carbon Revolution's production processes may adversely impact production capacity. This could result in a failure to meet production and sales forecasts, Carbon Revolution having to pay costs or damages to its customers, and/or negative customer perception about Carbon Revolution's ability to meet its supply obligations under its contracts. This in turn could damage relationships with customers and adversely impact Carbon Revolution's ability to secure new programs with existing and new customers, thereby reducing Carbon Revolution's sales, profitability and overall financial performance.</p>
Carbon Revolution is subject to inherent risks in the development and use of new technology and the implementation of product and process changes	<p>The implementation of new technology, product innovations and new manufacturing processes is challenging and involves risks that are inherent in the development and use of new technology. In particular, the manufacturing of composite materials is complex, and manufacturing one-piece carbon fibre wheels involves complex technology and processes which have not been used before at scale. \</p> <p>Failure to properly implement new technology may result in Carbon Revolution's products failing during trials, failing to gain customer approval or being difficult to profitably commercialise. The cost and time required to develop new wheel technology and to obtain customer validation for new wheels can also be uncertain. If Carbon Revolution fails to successfully continue to develop its existing or new technology, it may not be able to achieve its forecasts and/or growth plans, which will adversely affect its operations, financial position and performance.</p> <p>Additionally, a failure to properly implement new technology may result in higher scrap and wastage</p>

rates and more frequent quality issues than expected after customer validation and the commencement of production. Higher scrap and wastage rates and increases in quality concerns from customers may lead to higher production costs, or delays in deliveries to customers, which could result in Carbon Revolution being required to pay costs or damages to its customers or result in negative customer perception about Carbon Revolution's ability to meet its obligations under its customer contracts. Each of these risks may adversely affect Carbon Revolution's operations, margins and overall financial performance.

Carbon Revolution's operations may be restricted by third party intellectual property rights

Carbon Revolution has developed an extensive intellectual property portfolio, including patents, copyright and trade secrets/ confidential know-how. However, third parties (including competitors of Carbon Revolution) may, and in some cases do, hold intellectual property rights that are similar to, or overlap with, those of Carbon Revolution or its products or processes. There is a risk that these third parties may in the future hold, or do already hold, intellectual property rights (including patents) that are infringed by Carbon Revolution's products or processes, and which the rights holder(s) could seek to assert against Carbon Revolution, and thereby restrict Carbon Revolution's ability to exploit its own technology. In particular, Carbon Revolution is aware of certain patents in relation to certain key technologies used in carbon fibre wheels that are owned by competitors/ industry participants in countries which are key markets into which Carbon Revolution supplies its carbon fibre wheels (one of which is being challenged by Carbon Revolution) and there is a risk that these patents are or could be infringed by Carbon Revolution or its products or processes.

If Carbon Revolution is prevented from or is otherwise unable to commercialise its own intellectual property, this would adversely affect its operations, financial position and performance.

Additionally, these competitors may register patents or be entitled to other intellectual property rights in jurisdictions where Carbon Revolution seeks to protect its technology, manufactures or supplies wheels or where its customers supply vehicles fitted with Carbon Revolution wheels. If such other rights exist, they may prevent Carbon Revolution from obtaining patent protection, for example, and if any such third party patents or other rights are infringed by Carbon Revolution or its products or processes, Carbon Revolution may be prevented from or limited in its ability to develop, manufacture, sell or import or export products in or from those jurisdictions, unless Carbon Revolution can agree on a licensing or royalty agreement with the rights holder or otherwise successfully modify its products or processes to avoid any infringement. There is a risk that Carbon Revolution may not be able to enter into any such agreements if required (or that the terms may be unfavourable to Carbon Revolution) or that it might not be possible for Carbon Revolution to effectively modify its products or processes to avoid any infringement. Carbon Revolution may also be required to pay damages (referable to lost sales or a reasonable royalty, or in some cases, additional or exemplary damages for any wilful or flagrant infringement) to such rights holders or Carbon Revolution may be prevented from developing, manufacturing or selling wheels in one or more jurisdictions or at all. Carbon Revolution may also be liable to its customers for losses they suffer if Carbon Revolution wheels which they fit to the vehicles they sell to end consumers infringe or are alleged to infringe a third party's intellectual property rights. If any of these events were to occur, this would adversely affect Carbon Revolution's operations, financial position and performance. Additionally, a third party may also claim that it owns intellectual property which Carbon Revolution claims it owns. For example, a customer or supplier may argue that under the relevant contract between the parties it is entitled to own (or jointly own) or that they have exclusive rights to use intellectual property which Carbon Revolution claims as its own. If the parties were unable to reach a commercial resolution, litigation may ensue. For example, Carbon Revolution's OEM customer contracts contain intellectual property provisions which are largely in favour of the respective OEM customers and which vary between different OEM customer contracts. Generally, under these provisions, the OEM may own (or jointly own) or have the right to use (in some cases on an exclusive basis for a period) certain intellectual property developed by Carbon Revolution in connection with the relevant contract/order, as well as the right to use other relevant intellectual property owned by Carbon Revolution, including to manufacture the contracted wheels or have those wheels manufactured by a third party (which could be a Carbon Revolution competitor), including in certain circumstances, such as where Carbon Revolution is unable to supply the contracted wheels in accordance with the relevant contract. If an OEM exercised any such rights, it may result in the disclosure of sensitive Carbon Revolution technology to one or more of Carbon Revolution's competitors. Additionally, in some cases, and in the absence of a separate non-disclosure agreement with the OEM, these provisions may not provide for effective confidentiality protection over all technical information which Carbon Revolution provides to the OEM. With respect to certain OEMs, Carbon Revolution has procured a deviation or letter of comfort which is intended to clarify or modify the effect of certain relevant provisions. Subject to the terms of the applicable contract, if the OEM customer has an ownership interest or exclusive rights in respect of any Carbon Revolution-developed intellectual property, there is a risk that the customer may claim that Carbon Revolution has used such intellectual property for another customer in breach of Carbon Revolution's obligations and/or thereby infringing the customer's rights. This claim could adversely impact Carbon Revolution's relationship with the relevant customers, cause the customer's future orders of Carbon Revolution's wheels to decline, result in confidential information of Carbon Revolution being revealed to its competitors, and/or limit Carbon Revolution's ability to exploit technology it has developed other than in connection with supplying the relevant contracted wheels (or related services) to the relevant OEM customer. Any of these outcomes could have a material adverse effect on Carbon Revolution's operations and financial position and performance.

Carbon Revolution's key management personnel and employees are important to Carbon Revolution's ability

Loss of or failure to replace or hire key persons and workforce engagement issues may impact Carbon Revolution's operations and growth

to effectively execute its strategic objectives. These employees are critical to Carbon Revolution's success as they have extensive industry experience and technical knowledge, are responsible for managing key customer and supplier relationships and have a broad knowledge of Carbon Revolution's business. The loss of key management personnel may adversely affect Carbon Revolution's operations and financial performance. There are additional risks associated with the loss of Ashley Denmead in connection with the New Debt Program.

Carbon Revolution's successful development and growth will require the services of additional technical, manufacturing and sales staff, particularly if Carbon Revolution is to achieve its growth plans. There can be no assurance that Carbon Revolution will be able to attract and retain the services of such people, particularly given the competitive and specialised nature of the industry in which Carbon Revolution operates. This may limit Carbon Revolution's growth and consequently adversely affect Carbon Revolution's prospects and future financial performance.

If Carbon Revolution employees took industrial action, Carbon Revolution could be exposed to loss to the extent the industrial action impairs Carbon Revolution's ability to meet production demand or causes disruptions to Carbon Revolution's customers if the relevant customer contracts do not include industrial action as a force majeure event (or, even if they do contain such a provision, the industrial action is materially extended).

Carbon Revolution may suffer reputational damage or incur liability due to poor product performance or product failures, product recalls or other issues with its wheels

Carbon Revolution's brand and the reputation of its wheels are an important factor in Carbon Revolution being able to continue selling wheels and growing sales volume. There is a risk that events, including many of the risks described in this section, may damage Carbon Revolution's reputation and brand, including through negative publicity, disputes and negative customer experiences.

Carbon Revolution's reputation among its customers may be damaged as a result of poor experiences caused by faulty and poorly manufactured products, products that do not meet customers' product specifications and adverse media coverage. Other critical publicity, including in relation to manufacturing defects, product recalls, warranty issues, product liability claims or failure to deliver products to customer expectations) may negatively impact Carbon Revolution's reputation. Other issues which may impact its brand include failure to identify third party infringements of its intellectual property rights, a failure to secure and protect its technology or a failure to enforce its intellectual property rights against third party infringers, infringing third party rights including intellectual property rights, or disputes with suppliers, customers, its landlord, employees and its various government grant providers.

For example, Carbon Revolution products are validated during industry standard laboratory and on-vehicle testing. Initial laboratory testing for wheels is not fully representative of operational conditions, but is used in the development process to gain confidence in the wheel design. For final validation, all Carbon Revolution's OEM customers conduct their own on-vehicle testing which aims to be fully representative of the wheel's integration into the vehicle system and performance under real world operational conditions. However, there is a risk that the OEM customer's testing does not capture all conditions that their end users may expose Carbon Revolution wheels to or that the end user misuses the wheels (for example using them on inappropriate vehicles or undertaking unauthorised modifications or repairs), and as a result Carbon Revolution's wheels may not function as expected which could lead to reputation and brand damage.

Carbon Revolution has been informed that a limited number of wheels (less than around 50) supplied on two of Carbon Revolution's earliest wheel programs have encountered slow air leaks in the rim and have been returned by the end consumer. No recall or field service action has been instigated but Carbon Revolution has received some warranty claims from the OEM customer. The issue is not a safety issue. Carbon Revolution is investigating the root cause of the issue with its customer. A proportion of the wheels which have been returned have been replaced, and the OEM customer has deducted the cost of the replacement wheels from amounts otherwise owing to Carbon Revolution. Carbon Revolution is investigating short and longer-term countermeasures, including an additional coating option, which has successfully completed temperature and pressure testing on test samples. Carbon Revolution cannot assure you that one or more of these countermeasures will be successfully validated. The issue may be identified in a larger number of wheels in the same or other programs over time and one or more customers may make further warranty claims or instigate a recall or field service action. If it is determined that Carbon Revolution is generally responsible for the costs of the coating option or other countermeasures, further wheel replacements and/or any other associated costs, such costs may be significant, and could have a material adverse effect on Carbon Revolution's reputation, its relationship with its customers, and its financial condition and prospects.

Damage to Carbon Revolution's reputation as a result of one or a combination of these factors may reduce the demand for Carbon Revolution's wheels, adversely impact existing relationships with key customers, suppliers, employees or government grant providers, and diminish the prospects of securing new programs with existing and new OEM customers, which in turn may adversely impact Carbon Revolution's performance. Damage to Carbon Revolution's reputation or the reputation of its wheels may also occur where another vehicle component that interacts with or relates to the wheel (for example the tyres or brakes) malfunctions or

performs poorly and it is perceived (whether correctly or not) that this is related to the use or performance of Carbon Revolution's wheels.

Importantly, quality issues relating to Carbon Revolution's wheels may expose Carbon Revolution to the risk of product liability claims being brought against it, either by OEMs or end-users of Carbon Revolution's wheels.

Product liability claims may result in Carbon Revolution paying damages, increases in insurance premiums, or reputational harm. Irrespective of whether the financial impact of a product liability claim is covered by insurance, the claim may be costly and may have an adverse impact on Carbon Revolution's activities, business, operating results, financial position and reputation. Likewise, a failure to succeed in defending any such claims may have a materially adverse effect on Carbon Revolution's activities, business, operating results and financial position.

Further, an inability to obtain product liability insurance at a reasonable cost could prevent the commercialisation of Carbon Revolution's products. This could also adversely impact Carbon Revolution's business activities and financial performance.

Carbon Revolution's business may be impacted by environmental regulations, climate change and related risks

Carbon Revolution's operations, suppliers, and customers may be directly or indirectly affected by climate change. For example, extreme weather events and other natural disasters caused by climate change may disrupt production of Carbon Revolution's wheels. This may result in a loss of anticipated sales, deterioration in the relationships between Carbon Revolution and its customers and reputational damage. It may also result in Carbon Revolution having to pay damages to customers in the event Carbon Revolution is unable to rely on force majeure provisions in its customer contracts.

Where these events impact Carbon Revolution's suppliers, they may cause delays in the supply of raw materials required by Carbon Revolution to meet the obligations under its customer contracts, or may require Carbon Revolution to pay a premium for alternative materials on short notice, if alternative materials can be sourced at all. Where supplier deliveries are delayed and Carbon Revolution's customer orders are delayed as a result, this may result in Carbon Revolution being required to pay costs or damages to its customers or result in negative customer perception about Carbon Revolution's ability to meet its contractual obligations. Each of these risks may adversely affect Carbon Revolution's operations, margins and overall financial performance.

Carbon Revolution's operations involve the use of hazardous and environmentally harmful materials and chemicals, including the paints and resins it uses in the production of its wheels. For this and other reasons, its operations are subject to environmental protection laws and regulations, including those regulating air emissions, water discharges and waste management and disposal. Some of these laws and regulations impose substantial fines and sanctions for non-compliance or breaches. If Carbon Revolution were to breach or otherwise fail to comply with any such law or regulation, the cost of curing a breach or resolving associated enforcement actions initiated by government authorities could be substantial and may adversely impact Carbon Revolution's financial position.

Carbon Revolution is engaging a service provider to undertake an updated compliance assessment of the Company's air and noise emissions including its paint line air emissions based on its current production volumes and product mix, which differ from what was previously assessed. Carbon Revolution expects that it continues to be exempt from regulation in relation to its air and noise emissions and that the company remains in compliance with the applicable regulatory requirements. The assessment will identify any air and noise emissions-related compliance issues to be addressed by the Company.

Demand for Carbon Revolution's products may also be impacted by its ability to meet any applicable government, investor, stock exchange, customer and consumer standards, requirements and expectations. In particular, Carbon Revolution's customers are increasingly concerned with environmental, social and governance (ESG) matters. For example, some OEMs require completion and passing of a sustainability survey as a hurdle in the quoting process. If Carbon Revolution does not meet consumer or customer ESG expectations, demand for its products may not grow as expected, or may decline. If Carbon Revolution does not meet applicable government or stock exchange ESG requirements, Carbon Revolution's reputation may be adversely impacted, and it may incur fines and penalties. If Carbon Revolution does not meet investor ESG expectations, the pool of investors willing to invest in Carbon Revolution may decrease, which may adversely impact the trading price and volume of Carbon Revolution's securities and Carbon Revolution's prospects. Additionally, if Carbon Revolution's operations grow, it is likely to be subject to increased regulation relating to environmental matters, which may require it to obtain licences. The failure to obtain or delay in obtaining such licences may restrict its operations and impact its ability to generate revenue. There is an additional risk that could arise if Carbon Revolution is unable to create an effective recycling process for the materials it uses in its production process or the finished products at their end of life. There may be a shift in customer expectations in relation to environmental issues relating to Carbon Revolution's products, and a growing demand that its products be fully recyclable. If the end-of-life materials cannot be recycled or disposed of in an environmentally friendly manner, there may be reputational damage to the development and use of carbon fibre in Carbon Revolution's operations. This would negatively impact on Carbon Revolution's reputation and prospects.

	<p>The manufacturing of Carbon Revolution's wheels involves certain labour intensive processes, exposure to hazardous chemicals (such as paints) and the use of various pieces of complex machinery and equipment. There is also a relatively high incidence of new production equipment being commissioned, as well the construction of the Mega-line project, which inherently increases the risk of workplace incidents or accidents occurring during the equipment commissioning and training phase. There may be an incident or accident at Carbon Revolution's facility that results in serious injury or death to employees, contractors or other third parties, or damage to property.</p> <p>Employees of Carbon Revolution or other organisations may also suffer injuries from engaging in research and development and product testing activities, which can involve driving vehicles fitted with Carbon Revolution's wheels at various speeds and in various conditions.</p>
<p>Workplace incidents or accidents may occur exposing Carbon Revolution to claims or impacting operations</p>	<p>The occurrence of any workplace incident may result in adverse outcomes including fines imposed by a regulatory authority, an interruption of manufacturing operations, a worker's compensation claim, a workplace health and safety claim or a damages claim against Carbon Revolution. Such claims or events may not be covered by Carbon Revolution's insurance or may exceed Carbon Revolution's insured limits. They may also adversely impact Carbon Revolution's business operations and reputation.</p>
<p>Carbon Revolution's competitive position or reputation may deteriorate including as a result of actions by it or its competitors and financial stress from general business conditions and the Transaction</p>	<p>Carbon Revolution operates in a competitive industry, and its competitors include existing wheel manufacturers, new entrants and OEMs. Carbon Revolution's competitive position may deteriorate as a result of actions of any of these participants or as a result of a deterioration of its relationships with its customers.</p> <p>Competitors may enter the market and take market share from Carbon Revolution. Competitors may accelerate taking market share from Carbon Revolution by developing better technology for one piece carbon fibre wheels, or by offering better pricing, service or fulfilment rates compared to Carbon Revolution. Competitors who are more financially secure than Carbon Revolution may take market share from Carbon Revolution by offering more supply security for customers than Carbon Revolution currently offers. OEMs may also seek to establish alternative options for carbon fibre wheel supply to increase their own supply security and establish competitor supply tension.</p> <p>Existing manufacturers of steel or aluminium wheels may seek to produce their own carbon fibre wheels. Any increase in the number of businesses manufacturing carbon fibre wheels may affect the demand for Carbon Revolution's wheels and may result in downward pricing pressure for carbon fibre wheels, which would adversely impact Carbon Revolution's profitability, financial performance and prospects.</p> <p>Additionally, Carbon Revolution's relationship with its OEM customers is governed by contracts that are largely based on the standard contracts of the customers. In order to assist Carbon Revolution's cash position, Carbon Revolution has requested and may request in future non-standard contractual terms or changes of already agreed contractual terms, shorter payment terms or advance payments. As a result of such requests, Carbon Revolution's OEM customers may qualify Carbon Revolution as a 'distressed supplier', that is, a supplier facing financial or operational difficulties. Carbon Revolution has had and continues to have negotiations with customers arising from certain "non-standard" terms that it has proposed. This may result in a deterioration of the business relationship and may create the risk that those OEM customers pursue opportunities with competitors of Carbon Revolution, which would cause Carbon Revolution's revenue, profitability and/or market share to decline.</p> <p>Carbon Revolution currently has 13 active awarded programs with five global OEMs (six of which are currently in production and seven of which are under development). In addition to the 13 active awarded programs, an additional 3 programs are under detailed design and engineering agreements with three of the existing OEMs. As there are no minimum order volume provisions in Carbon Revolution's OEM customer contracts, and they are not 'take or pay' contracts, customers can reduce order volumes, or cease to order wheels from Carbon Revolution entirely.</p> <p>There are a range of factors that may lead to an OEM terminating its existing contract with Carbon Revolution, existing OEM customers not seeking additional supply contracts with Carbon Revolution, or an OEM discontinuing its relationship or discussions with Carbon Revolution (including where a design and engineering contract is in place). These factors include if Carbon Revolution fails to achieve its industrialisation plans and does not supply OEMs in the volumes required under the contracts (or at all), if Carbon Revolution loses customer relationships to competitors, if one or more failures of Carbon Revolution's manufacturing facilities causes delays in production, if Carbon Revolution suffers from worse than anticipated production quality issues or if Carbon Revolution suffers reputational damage or has product performance issues.</p> <p>Given the level of customer and program concentration, if Carbon Revolution were to lose any one OEM</p>

<p>Carbon Revolution's wheel programs and customers are concentrated, relationships with customers may deteriorate and customer or end user demand for Carbon Revolution's wheels may be lower than expected</p>	<p>customer, or customer program, this would have a significant adverse impact on Carbon Revolution's financial performance and prospects. Further, an inability to enter into additional supply contracts and attract additional OEM customers may negatively impact Carbon Revolution's prospects and future financial performance.</p>
<p>Carbon Revolution's or a third party's information technology systems may fail or be subject to attack</p>	<p>Carbon Revolution relies on third party IT software and service providers to support its business operations, including its production processes. Carbon Revolution also holds sensitive employee and customer data and information related to its intellectual property, including proprietary designs, know-how and processes. Carbon Revolution's IT systems may be adversely affected by damage to computer equipment or network systems, cyber-attacks, equipment faults, power failures, computer viruses, misuse of systems or inadequate business continuity planning.</p> <p>Any failure of Carbon Revolution's IT systems as a result of these factors may compromise Carbon Revolution's data integrity (which may result in an inadvertent security breach in relation to such data) and lead to unauthorised access to Carbon's Revolution's intellectual property or automated aspects of its manufacturing. This in turn may adversely affect Carbon Revolution's reputation, business operations, and financial performance and profitability or expose Carbon Revolution to third party liability.</p> <p>As Carbon Revolution's operations grow, they will become more complex and require additional IT support. New and complex IT systems may need to be introduced, which may require additional resources, divert management attention and be unsuccessful. These outcomes may adversely impact Carbon Revolution's operations and financial performance.</p> <p>Exploitation, unauthorised access or hacking of the systems or networks on which Carbon Revolution data is stored, could lead to corruption, theft or loss of the Company's data and proprietary information. This could cause disruption to the Company's operations, unauthorised disclosure of confidential and proprietary information to third parties, and may result in regulatory action against the Company for breach of privacy and data protection laws, and may have a material adverse effect on the Company's operations, financial position or performance.</p>
<p>Force majeure events may occur</p>	<p>If Carbon Revolution is not able to operate its IT systems as a result of any of the above issues and it is required to run its production equipment with manual instruction or records, Carbon Revolution may not be able to produce the same volume of wheels and it may therefore be unable to meet customer demand and supply requirements.</p> <p>Force majeure events could impact Carbon Revolution's operations. These events include but are not limited to acts of terrorism, international conflicts, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, COVID-19 or other pandemics, epidemics or health emergencies, governmental restraint (including governmental restraints due to epidemics or pandemics) or other natural or man-made events or occurrences that can have an adverse effect on Carbon Revolution's business. Carbon Revolution has only a limited ability to insure against some of these risks.</p> <p>Volumes may be impacted by the industry strike by members of United Auto Workers at three United States OEMs (UAW Strike). At this stage, Carbon Revolution has not been advised of strikes impacting production at the plants to which its wheels are currently sent and accordingly the revised financial projections do not incorporate provision related to the UAW Strike.</p> <p>If a force majeure event impacts Carbon Revolution's customers, there is a risk that the demand of the customer for Carbon Revolution's wheels decreases or is delayed. If a force majeure event impacts Carbon Revolution's supply chain, Carbon Revolution may incur increased costs to minimise or mitigate delays or to secure alternative sources of supply. In such a case, Carbon Revolution may not, however, be successful in finding alternative sources and it may not be able to fulfil its production commitments to its customers, which could have a material adverse impact on Carbon Revolution's operating and financial performance and position.</p>

Remuneration Report

Dear fellow shareholders,

On behalf of the Carbon Revolution Board of Directors, I am pleased to present the Company's Remuneration Report for the financial year ended 30 June 2023 (FY23). FY23 was another significant year in our development with the following important achievements:

- A new customer, Jaguar Landrover (JLR) being our first launch of an SUV carbon fibre wheel program which extends our technology to a strategically important and extremely large SUV segment.
- Secured 4 new programs with both existing and new OEM partnerships, strengthening our backlog for the coming years.
- We witnessed the material impact of the throughput and efficiencies resulting from the progressive implementation of our Mega-line.
- The team achieved a US\$60 million Intellectual Property (IP) debt facility, demonstrating the value of our pioneering technology and patents.
- Importantly, the Company announced on 30 November 2022 the proposed merger with Twin Ridge Capital Acquisition Corp. Significant progress has been made on this merger, and subject to shareholder approval, the Board expects this will be completed in October 2023.

As an emerging growth company, we are not immune to disruptions in global supply chains. In FY23 Corvette wheel sales were pushed back by approximately 6 months from early to mid FY23 due to supply chain challenges on the vehicle. This adversely impacted revenues for FY23. We have disclosed how the Board assessed this impact as it relates to any incentives for key management personnel.

The Remuneration Report sets out remuneration information for the Chief Executive Officer (CEO)/Managing Director, the Chief Financial Officer (CFO) and Non-Executive Directors. It describes the Carbon Revolution Remuneration Framework (Remuneration Framework) and pay outcomes for FY23 in a simple and transparent way. Given the timing of the proposed merger and release of the Scheme Booklet, this report will direct shareholders to the Scheme Booklet for the final proposed treatment of any KMP remuneration that may be affected by the transaction. The proposed treatment of KMP remuneration set out in the Scheme Booklet is subject to shareholder approval of the Scheme.

Performance and Remuneration Outcomes for FY23

The Board has adopted remuneration principles, detailed in table 2, to determine the following remuneration outcomes:

- Non-Executive Directors' Fees** - no increase in Non-Executive Directors' fees were made between FY21 and FY23. The Board undertook market benchmarking to determine appropriate changes to the compensation of directors as a result of the Transaction. This is explained further in the Remuneration Framework Review below with proposed changes disclosed in the Scheme Booklet.
- Fixed Remuneration for Executive KMP** - whilst the Board has undertaken benchmarking to determine the appropriateness of the compensation arrangements of executive KMP following Implementation of the Transaction, no decision in relation to fixed remuneration has been made for FY24. For FY23, the Fixed Annual Remuneration of the CEO increased by 3% following a review of market data, broader economic indicators and performance. The FY23 Fixed Annual Remuneration of the CFO increased by 12% following a similar review and reflected additional responsibilities including leadership of Supply Chain, People & Culture and Procurement.
- Short Term Incentives (STI)** - STIs were awarded at 45% for the CFO and 40% for the CEO of maximum opportunities for partial achievement of the revenue target, full achievement of the corporate objective and individual objectives set by the Board. More details are provided below and in section 3.1.6 of the report.

Consistent with FY22, the Board determined that the FY23 STI plan was weighted 70% to financial results with the primary financial goals being revenue growth (35%) and EBITDA (35%). The Board also sets corporate non-financial objectives (10%) and safety performance goals (5%). The final 15% was allocated to achieving strategic or operational personal objectives related to the role. The Board made the following assessments in determining STI awards.

Revenue - Awarded 20% - Between Threshold and Target. Whilst Revenue growth did not hit the target set, the Board applied its discretion to recognise material impacts outside of management control. This included an estimated \$19.8m of revenue deferred due to supply chain issues General Motors experienced with the Z06 Corvette. The Board deemed performance at 20%, recognising some of these factors were outside of management control.

EBITDA - Nil Award - Below Threshold. EBITDA was below the target set by the Board and whilst there were a number of material impacts, including the delay with the Corvette sales there was no discretion applied by the Board.

Corporate Objective - Awarded 10% - Exceeded Target. Our FY23 corporate objective focused on two objectives. Firstly, implementing our wheel development framework that systematically drives the design and launch of all wheel programs through a disciplined gateway process. This important aspect of our customer and process capability has now been fully implemented and is used for all programs, representing further maturity in managing customer requirements. The second objective was focused on business development and future revenue growth. The target required new programs being awarded, representing no less than 20,000 wheels per annum from FY26. During the reporting period, four new programs have been awarded resulting in an achievement of over 35,000 wheels from FY26. This represents a result significantly above the target set.

Safety Objective - Awarded 0% - Below Target. Our team achieved a LTIFR of 6.2 for FY23 which was above the target set and therefore no award was made. The team is committed to improve this fundamental area of our business. Continuous improvement activities have been reviewed and implemented in response.

Personal Objectives - The Board assessed personal objectives and achievements of CEO at target (10%) and CFO as exceeding target (15%). These included operational achievements such as Mega-line commissioning and improvements in throughput and hours per wheel, business development and overhead reductions. The Board also assessed the significant strategic contribution and effort required to work through the merger process and debt program since late 2022. More detailed disclosures are provided in Table 7.

iv. **Long Term Incentives (LTI)** - Whilst the FY20 ESOP vested during the year, there was no exercise of any options given the share price was significantly below the exercise price of \$2.60. No other LTI awards vested as the plans have not reached the end of their vesting or performance periods. Further details on the proposed treatment of the outstanding LTI plans are explained in the Remuneration Framework Review below and disclosed in the Scheme Booklet.

The CEO's fixed remuneration increased by 3% in FY23. His STI award of \$157,590 was up 3% from FY22. The CEO and CFO were both awarded a cash payment of \$50,000 to recognise the extensive strategic contribution to progress the proposed merger. There was no exercise and no value from the vested FY20 ESOP award. The Board determined that it was not appropriate to make the FY23 LTI Rights grant given the potential merger.

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.

As the business prepares for a potential US listing, it was necessary to undertake detailed market benchmarking for remuneration of NEDs, Executive KMP and specific senior executive roles that will have increased customer, governance and investor responsibility in US, Europe and Ireland. Benchmark data was referenced, which considered prevailing US practices and the quantum of remuneration payable for these roles at comparable US publicly traded companies. This aligns with our principle of having market competitive remuneration that attracts and retains talent now and into the future.

Having reviewed the market benchmarking and prevailing US practices, the Board has determined the proposed NED remuneration arrangements that it anticipates will be implemented should shareholders approve the Scheme. This includes compensation being in the form of a cash retainer and equity. The Scheme Booklet also discloses changes to the minimum shareholding requirement of NEDs and post transaction lock up arrangements for NEDs, Executive KMP and other senior executives. In relation to Executive KMP and other senior executives, any decision to review Fixed Remuneration, STIs or LTIs will be made by the new Board post Implementation should shareholders approve the Scheme.

In the Scheme Implementation Deed – Treatment of existing Equity Incentives, the Board determined that all vested FY20 ESOP options, all unvested FY21 LTI Rights and all unvested FY22 LTI Options would be cancelled for nil consideration. The Board requested and received approval of ASX in relation to these matters. The Board also determined that it would be inappropriate to grant any FY23 LTI Rights, including those approved by shareholders for the CEO.

The Board also approved that any outstanding STI Rights or Employee Rights for any employee would be automatically exercised on the Scheme Record date. This includes the treatment of the 298,594 FY22 STI Deferred Rights for Mr. Dingle which will vest and automatically be exercised on the Scheme Record date. The Board requested and received the approval of the ASX in relation to this matter.

Given the unique knowledge and experience of Executive KMP, senior executives and other managers, the Board was committed to ensuring the retention of this team. As a result, the Board approved an Initial Retention plan and introduced service-based vesting for 50% of future LTI plans should shareholders approve the Scheme. No future grants have been made, with eligibility and performance conditions to be determined by the Board post Implementation. The Board approved the 2023 Stock Option and Incentive Plan that is a US requirement and through which all future equity grants will be made. These details are all disclosed in the Scheme Booklet.

FY23 has required an extraordinary effort to ensure we continue to grow, manage our operations, and ensure the merger transaction is professionally managed. I'd like to thank my fellow directors, the management team and all employees for their exceptional dedication and commitment to deliver on behalf of all shareholders.



Lucia Cade

Chair, Remuneration and Nomination Committee

29 September 2023

2.1.1 Purpose

This Report sets out the remuneration arrangements for the Key Management Personnel (KMP) of Carbon Revolution for the period from 1 July 2022 to 30 June 2023. 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 FY23.

KMP for the year ended FY23 are detailed in the table below.

Name	Position	Term as KMP
Non-executive Directors (NEDs)		
James Douglas	Chair	Full Year
Lucia Cade	Director	Full Year
Dale McKee	Director	Full Year
Mark Bernhard	Director	Full Year
Executive KMP		
Jake Dingle	Managing Director & CEO	Full Year
Gerard Buckle	Chief Financial Officer	Full Year

2.1.2 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 11.
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.

Principle	Explanation and Practice
Promotes employee ownership	Carbon Revolution encourages all employees and Directors to act like owners. Increasing alignment between employees, the Directors and shareholders has been promoted through: <ul style="list-style-type: none"> i. STI deferral at 50% for senior executives; ii. Up to 100% of FY23 STI granted in equity with the Board yet to make the determination between cash and equity; iii. 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; and iv. NEDs, Executive KMP and senior executives are required to hold, or make progress toward holding the minimum shareholding requirements set out in the Minimum Shareholding Policy.
Simple and fair	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 no inappropriate benefits and that performance and the creation of shareholder value is rewarded.

Elements: The key elements of Carbon Revolution's Executive KMP remuneration frameworks are outlined below, with further details provided in the body of the report.

Table 3: FY23 Executive KMP Remuneration framework

Element of Remuneration	Purpose and Market Positioning	Measures
<p>Fixed Annual Remuneration (FAR)</p> <p>Includes base salary, superannuation, other eligible salary sacrifice benefits and employee rights where this has been substituted for base salary</p>	<p>To pay fairly against the market for comparable roles</p> <p>Set to attract and retain capable employees</p> <p>Set at the market median for Comparator Group companies defined as All Industries, excluding Financials and Resources, with a market capitalisation between \$200M-\$550M</p>	<p>Role and Responsibility</p> <p>Skills, experience and accountability</p> <p>80-120% of the median for comparable roles</p> <p>Reviewed annually based upon performance and economic data</p> <p>Reviewed for promotions</p>
<p>Short-Term Incentive (STI)</p> <p>Annual incentive opportunity delivered in cash and equity, or 100% equity including Short Term Incentive Deferral</p>	<p>Drive and reward the achievement of challenging annual growth and performance targets</p> <p>Target is set between the median and 75th percentile of the Comparator Group</p> <p>The Board has the discretion to adjust STI outcomes to ensure that individual outcomes are appropriate</p> <p>50% of STI award is made in cash or fully vested equity 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</p>	<p>Financial – includes revenue growth and EBITDA objectives</p> <p>Non-financial – includes corporate and safety objectives and personal objectives related to the strategy and role</p> <p>The Board sets financial, and non-financial objectives and determines overall weighting of the objectives annually based on business priorities</p> <p>Assessment of financial and non-financial objectives are made by the Board Further details are provided in Table 4</p>

Element of Remuneration	Purpose and Market Positioning	Measures
<p>Long-Term Incentive (LTI)</p> <p>Three-year incentive opportunity delivered through options or performance rights with vesting dependent on service conditions and achievement of challenging performance conditions</p>	<p>Drive performance and deliver strategic objectives that create long-term shareholder value</p> <p>Promote the opportunity for executives to build their interests in Carbon Revolution equity</p> <p>Attract, motivate and retain the necessary executive talent to grow the business and increase returns to shareholders.</p> <p>Achieve shareholder alignment through equity ownership</p> <p>Maximum grants of options or performance rights are issued through the EIP and are set between the median and 75th percentile for Comparator Group</p>	<p>Whilst shareholders approved the FY23 LTI Rights Plan and grant to be awarded to the CEO, the Board determined it would be inappropriate to make this grant in light of the proposed merger</p> <p>Performance measures are aligned with shareholder value</p> <p>Full details of all issued LTI Plans have been disclosed in prior Remuneration Reports.</p> <p>Holders of options and performance rights are not entitled to dividends until options are exercised or rights have vested and are converted to shares</p>
Total Remuneration	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	

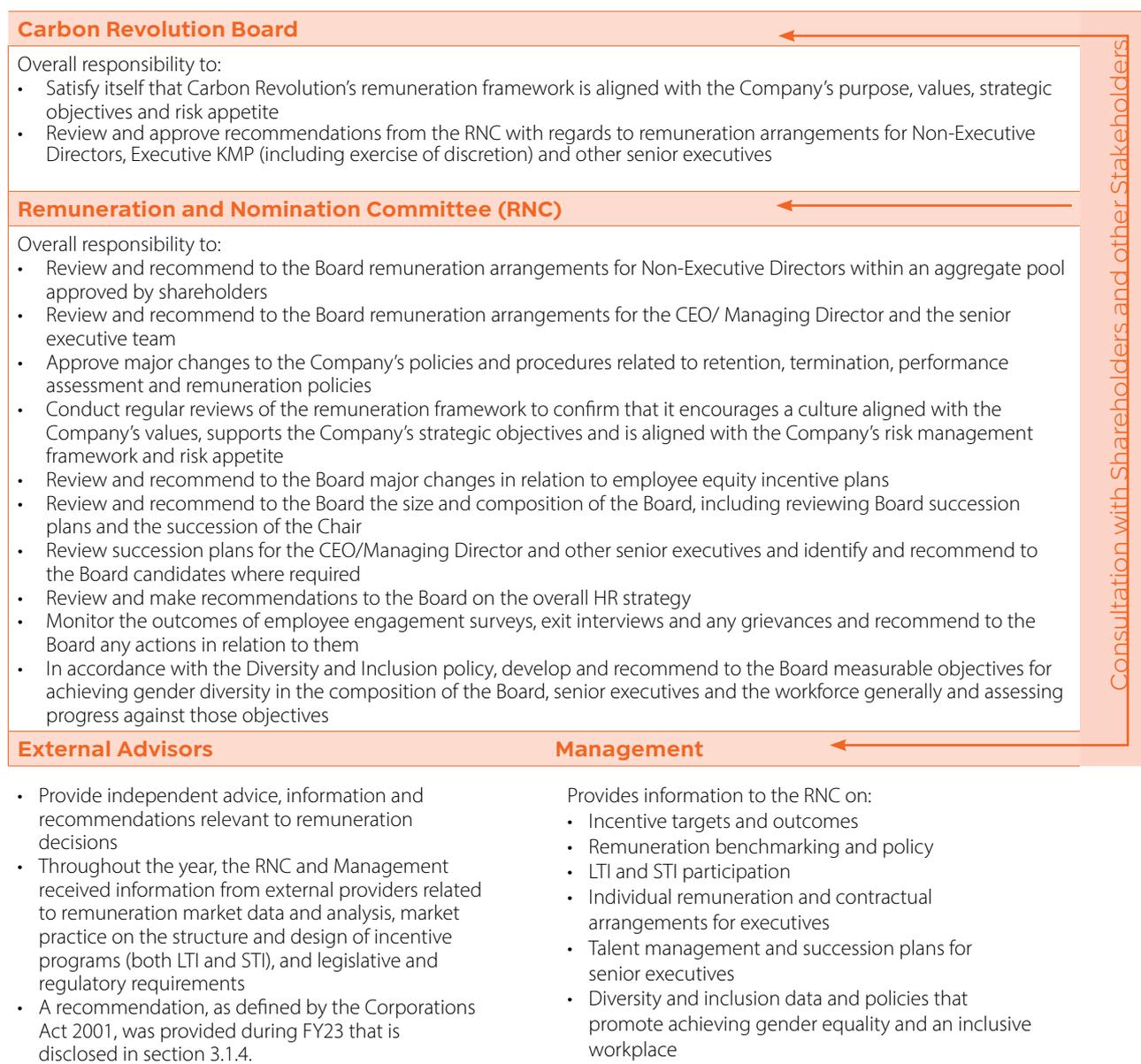
Minimum Shareholding Requirements

In FY23 the Board reviewed the Minimum Shareholding Policy and undertook market benchmarking of similar sized US listed entities. The details of this are included in the Scheme Booklet and will be implemented should shareholders approve the Scheme. Whilst changes for the NEDs have been disclosed, no decisions have been made to change the minimum shareholding requirements for the CEO, CFO or other senior executives at this time. As such the current policy, which requires the CEO/Managing Director and CFO to hold shares equivalent in value to 12 months of FAR and other senior executives to hold shares equivalent in value to six months of FAR has been maintained. Participants will be provided reasonable time to acquire these interests.

2.1.3 Remuneration Governance

Carbon Revolution's remuneration governance framework is set out below. The Board oversees the remuneration policy both directly and through the RNC. The composition and functions of the RNC, which oversees remuneration issues and human resources matters, are set out in the charter available from the Carbon Revolution website. The charter was reviewed during FY23.

Figure 1: Carbon Revolution’s remuneration governance framework



2.1.4 Activities of the RNC In FY23

The key focus for the RNC in FY23 was the retention of key personnel and ensuring all the needs of the proposed merger were professionally met. To drive this, the RNC reviewed our remuneration framework including existing and new incentive plans to ensure they supported the attraction of talent and retention of key leadership. Proposed changes are disclosed in the Scheme Booklet. The Committee engaged with external advisors over the reporting period to enhance its knowledge of U.S. market practice for remuneration and governance requirements. Should shareholders approve the Scheme, managing this transition will be a key focus area for the RNC in the year ahead.

During FY23, Carbon Revolution was provided with a remuneration recommendation, as defined by the Corporations Act 2001, from Aon's Human Capital Solutions Practice, a division of Aon plc ("Aon") in relation to NED compensation and retention arrangements for Executive KMP. These relate to future remuneration arrangements, should shareholders approve the Scheme, and are disclosed in the Scheme Booklet. Aon was paid US\$58,954 in relation to the remuneration recommendations provided. Aon was paid US\$10,000 for other governance advice during FY23 that did not form recommendations.

Both Aon and the Board are satisfied that the remuneration recommendations were made free from undue influence from the KMP to whom the remuneration recommendations applied. Remuneration recommendations were provided to the Board as an input into decision-making only, and the Board considered the recommendations, along with other factors, when making its remuneration decisions.

2.1.5 Composition of Remuneration

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

i. Fixed annual remuneration (FAR)

FAR comprises base salary, superannuation and other eligible salary sacrifice benefits. FAR may be substituted for employee rights where such a plan is approved by the Board and offered to employees. FAR is targeted at the market median 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-\$550M. In some cases, superior performance or strong market demand for specific job categories may justify above-median FAR.

FAR is reviewed annually or on promotion. There are no guaranteed increases included in any Executive KMP's contracts.

ii. At risk remuneration – STI plan

Table 4: Details of the FY23 STI plan

Purpose	To drive individual and team performance to deliver annual business plans and increase shareholder value
Frequency and timing	Awards are determined on an annual basis with performance measured over the year to 30 June and payment made approximately in September
Financial Measures	All eligible employees have a common set of financial KPIs set at the commencement of the performance period. Financial goals are weighted at 70% of the overall plan. The key financial goals in FY23 were revenue growth (35%) and EBITDA (35%). For further information see Table 5
Non-financial objectives	<p>Non-financial objectives include strategic and operational goals that are aligned to the business plan. Non-financial objectives are weighted at 30% of the overall plan. In FY23, there were two corporate wide goals. The first required implementing a wheel development framework focused upon design and launch of new programs to enhance the customer experience. The second was a business development goal that required incremental new programs awarded representing no less than 20,000 wheels per annum from FY26. In combination these corporate goals were weighted at (10%) and safety performance (5%).</p> <p>Other goals relating to specific roles are weighted at 15% and include:</p> <ul style="list-style-type: none"> • customer and product launch goals • finance and funding goals • operational improvements including quality, delivery and cost, • enhancing our supply chain capability and • implementation of the industrialisation program, technology and productivity. <p>For further information see Table 7</p>
Why the performance conditions were chosen	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
Assessment of performance against measures	<p>At the end of the Carbon Revolution financial year, an assessment is made of both the Company's financial performance, the corporate and safety objective and each participant's performance compared with the performance goals set. A review of the CEO/Managing Director's performance is completed by the Chair and discussed by the Board. Reviews of senior executives are completed with the CEO/Managing Director to determine performance against the relevant individual objectives</p> <p>The Board approves Executive 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>

Board discretion	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
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 STI Deferred Rights. The Board has not yet made a determination on the final settlement of FY23 STI awards in terms of cash and equity. This decision will be made prior to any grant being approved by the Board.
Quantum of Grants	For FY23, the number of Rights granted is determined by the volume weighted average price (VWAP) of Shares traded on the ASX during the 20-trading day period following release of the full-year financial results. Should the merger be approved by shareholders any FY23 STI Deferred Rights will vest 12 months from US listing.
Dividends and Voting Rights	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
Clawback and preventing inappropriate benefits	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
Exercise Period	Vested STI Rights may be exercised by the participant within the Exercise Period. The Exercise Period is the period commencing when STI Rights vest (at the Grant Date for STI Non-Deferred Rights and 12 months following the Grant Date for the STI Deferred Rights, subject to continued employment) and ending on the Expiry Date. The Expiry Date is the 10-year anniversary of the Grant Date. There will be nominated exercise windows during the year which sit within trading windows in accordance with the Securities Dealing Policy
Cessation of Employment	Unless the Board determines otherwise: <ul style="list-style-type: none"> • 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
Change of Control	Subject to the Board's discretion to determine otherwise, all STI Rights will vest (if applicable) and automatically convert to Shares on a change of control (as defined in the Plan Rules).

iii. At risk remuneration – LTI 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.

A summary of the FY23 Plan, their performance hurdles and vesting conditions were explained in the 2022 Notice of Meeting. The Board determined it was not appropriate not make this grant given the potential merger. There was no vesting or cost associated with this approved grant so no further disclosures are provided.

2.1.6 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 5, 6 and 7 summarise key performance measures for financial and non-financial objectives. Table 8 provides the FY23 outcomes approved by the Board for Executive KMP.

While the LTI plans have not reached the end of the relevant performance periods, they are linked to company performance as the value of options and rights ultimately depends on share price performance and achievements against the performance measure.

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 6 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 40% and 45% of maximum STI opportunities would be awarded to the CEO and CFO respectively. Table 8 provides the FY23 STI outcomes approved by the Board for Executive KMP.

Board Discretion

In reaching the FY23 STI determination, the Board thoroughly assessed the significant and material impact of unforeseen changes in customer volume requirements due to the ongoing interruptions to global supply chains, outside of management control. The impact of these issues forced challenging decisions for management in order to conserve cash flow where possible. Whilst Revenue growth did not achieve target, the Board applied its discretion to provide fair outcomes for Executive KMP as set out in Table 5.

The Board has not yet made a determination on the final settlement of FY23 STI awards in terms of cash and equity. This decision will be made prior to any grant being approved by the Board. However, fifty per cent of any STI awarded to Executive KMP and senior executives in FY23 will be subject to a 12-month continuous service condition.

i. STI and financial measures

Table 5: Financial Goals and achievements

Performance Area	Weighting	Performance and Award
Revenue Growth	35%	Awarded 20% - Between Threshold and Target The Board applied its discretion to recognise material impacts outside of management control. This included \$19.8m of revenue from the Corvette program delays due to ongoing supply chain issues impacting vehicle scheduled demand.
EBITDA	35%	Nil Award - Below threshold set EBITDA was below the threshold set by the Board and whilst there were a number of material impacts, including the delay with the Corvette sales there was no discretion applied by the Board.

Table 6: Key Indicators of financial performance and shareholder returns

	Financial Performance					
	Revenue (\$ million)	EBITDA (\$ million)	Dividend (cents)	Total Shareholder Return % ¹	Earnings Per Share (\$)	Closing Share at 30 June (\$) ²
FY23	38.3	-64.2	nil	-59.3	-0.38	0.12
FY22	40.3	-37.6	nil	-73.4	-0.23	0.295
FY21	34.9	-19.5	nil	-39.7	-0.23	1.11
FY20	38.9	-17.1	nil	-29.2	-1.14	1.84

1 TSR for FY2020 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. TSR for FY23 is calculated as the change in share price from 1 July 2022 – 30 June 2023 on the ASX plus dividends paid during the financial year divided by the share price at the commencement of the financial year.

2 The listing 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 7 summarises the key non-financial goals and assessments of performance made by the Board.

Table 7: Non-financial goals and achievements

Performance area	Weighting and Measure	Performance and Award
Workplace Health, Safety (WHS)	5% Lost Time Injury Frequency Rate (LTIFR)	0% Awarded – Target Not Met Achieved LTIFR of 6.2.

Corporate Objective	10% Customer: Successful execution of design and launch programs utilising our wheel development framework. Measured using scheduled gateway reviews. Business Development: Incremental new programs awarded representing no less than 20,000 wheels per annum from FY26	10% Awarded - Exceeded Target Framework has been fully implemented and is used for all programs representing further maturity in managing customer requirements. Four new programs have been awarded resulting in an achievement of an incremental increase of over 35,000 wheels from FY26. This represents a result significantly beyond target set.
Personal Objectives	15% Customer and Business Development, New Debt Program, Supply Chain Capability and Productivity, Quality and Delivery	10% Awarded – At Target The Board assessed personal objectives and achievements of the CEO at target (10%) and the CFO as exceeding target (15%). These included operational achievements such as Mega-line commissioning and improvements in throughput and hours per wheel, business development and overhead reductions. The Board also assessed the significant strategic contribution and effort required to work through the merger process and debt program since late 2022.

	FY23 STI Awarded¹			
	\$ Maximum STI opportunity	\$ STI Awarded	% of Max STI Awarded	% of Max STI Forfeited
CEO/Managing Director - Jake Dingle	393,975	157,590	40	60
Chief Financial Officer - Gerard Buckle	200,000	90,000	45	55

iii. LTI Plan

During FY23, all FY20 ESOP Options vested. None of these options have been exercised as the share price is significantly below the exercise price of \$2.60. No other LTI plan vested as they have not reached the end of their performance period. For further information on how the LTI Plans are to be treated, should the merger be approved, please refer to the Scheme Booklet.

¹ The Board has not yet made a determination on the final award of FY23 STI awards in terms of the split between cash and equity. This decision will be made prior to any grant being made. However, it is expected that fifty per cent of any STI awarded to Executive KMP and senior executives in respect of FY23 will be subject to a 12-month continuous service condition. If the Award is made in equity, the number of STI Rights awarded will be 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. The minimum value of this award is nil and the maximum value will be determined by the share price of the Company. Due to the uncertainties in method of settlement and where historically the Group has settled STI awards through the issuance of Rights shares/options, the FY23 STI awards has been accounted as Share Based Payments.

2.1.7 Service Agreements

CEO/Managing Director – Executive service agreement

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

Table 9: CEO/Managing Director's remuneration package

Fixed Remuneration	Fixed annual remuneration of \$525,300 inclusive of superannuation contributions effective from 12 September 2022. Fixed remuneration is reviewed annually. Increases are not guaranteed
Notice period	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"> the Company giving him twelve months' notice of termination; or Mr Dingle giving six months' notice of resignation
STI	There is no minimum entitlement to an STI payment and the maximum STI opportunity is 75% of fixed annual remuneration for exceptional performance. 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
LTI	Details of the FY23 LTI Plan and performance conditions set by the Board were set out in the 2022 Notice of Meeting. This grant was not made as the board determined it was not appropriate considering the potential merger. For Mr Dingle, the maximum value of FY23 Rights would have been 75% of fixed annual remuneration. The Board will determine the FY24 LTI Plan post implementation should shareholders approve the Scheme

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 10: Chief Financial Officer's remuneration package

Fixed Remuneration	Fixed annual remuneration of \$400,000 inclusive of superannuation contributions effective from 12 September 2022. Mr Buckle's fixed remuneration is reviewed and adjusted by the Board given additional responsibilities including leadership of Supply Chain, People & Culture and Procurement. Fixed remuneration is reviewed annually but with no guarantee of an increase.
Notice period	Under the Executive's Service Agreement there is no fixed term and Mr Buckle's employment can be terminated by: <ul style="list-style-type: none"> the Company giving him twelve months' notice of termination; or Mr Buckle giving six months' notice of resignation
STI	There is no minimum entitlement to an STI payment and the maximum STI opportunity is 50% of fixed annual remuneration for exceptional performance. 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
LTI	No grant was made for the FY23 LTI plan as the board determined it was not appropriate considering the potential merger. For Mr Buckle, the maximum value of FY23 Rights would have been 60% of fixed annual remuneration. The Board will determine the FY24 LTI Plan post implementation should shareholders approve the Scheme.
Transition Benefit	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. These shares met their service condition on 9 September 2022.

2.1.8 Statutory Remuneration

Remuneration of the CEO/Managing Director and Chief Financial Officer

The remuneration table below shows total remuneration expensed for accounting purposes for executive KMP in FY23.

Table 11: Executive KMP statutory remuneration for full year to 30 June 2023

\$ Year end				Post Employment Benefits	Share-based payment		Total	Performance based ⁴		
	30-Jun	Cash	Other benefits	Leave benefits	Super- annuation	STI Expense ¹		LTI Expense ²	One-off Equity Award ³	STI
Managing Director - Jake Dingle										
2023	572,852	-	7,206	27,500	206,484	267,106	-	1,080,948	19%	25%
2022	443,538	-	37,038	27,500	221,211	402,528	-	1,131,815	20%	36%
Chief Financial Officer - Gerard Buckle										
2023	393,758	-	22,681	25,293	145,518	114,011	9,633	710,893	21%	16%
2022	310,735	-	21,351	23,568	112,840	151,229	13,380	633,103	18%	24%
Total Executive KMP										
2023	988,410	-	29,887	52,793	352,002	381,117	9,633	1,791,841	-	-
2022	754,274	-	58,389	51,068	334,052	553,757	13,380	1,764,918	-	-

1 STI expense for FY23 plus amortisation of STI relating to prior years grants.

2 ESOP and FY21& FY22 LTI grants are expensed over the vesting period at a valuation determined on grant date by a third party detailed in Table 13.

3 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 will vest on 9th September 2022.

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

2.1.9 STI Deferred Rights and Vested STI Rights

Table 12: STI deferred rights and non-deferred STI Rights for Executive KMP

Typically, any STI award to Executive KMP and senior executives will be delivered 50% in cash and 50% in Rights deferred for 12 months (STI Deferred Rights). In FY23 the Board is yet to determine whether the cash component will be paid as cash or fully vested Rights (STI Non-Deferred Rights). This decision will be made before any grants are made.

Number of STI deferred rights and STI Non deferred rights											
	Plan	Balance 1 July 2022	Granted as Remu- neration ¹	Vested and Exercised	Lapsed	Balance 30 June 2023 ²	Grant Date	Vesting Date	Expiry Date	Face Value	Fair Value
Managing Director - Jake Dingle ³	FY22 Non-Deferral	-	298,594	298,594	-	-	13-Dec-22	13-Dec-22	13-Dec-32	0.256	0.19
	FY22 STI Deferral	-	298,594	-	-	298,594	13-Dec-22	13-Dec-23	13-Dec-33	0.256	0.256
	FY21 Non-Deferral	50,645	-	50,645	-	-	29-Nov-21	29-Nov-21	29-Nov-31	1.18	1.05
	FY21 STI Deferral	50,645	-	50,645	-	-	29-Nov-21	29-Nov-22	29-Nov-31	1.18	1.18
	FY20 STI Deferral	33,548	-	33,548	-	-	2-Oct-20	12-Nov-21	12-Nov-30	2.012	2.012
Chief Financial Officer - Gerard Buckle	FY22 Non-Deferral	-	296,106	296,106	-	-	13-Dec-22	13-Dec-22	13-Dec-32	0.256	0.255
	FY21 Non-Deferral	23,634	-	23,634	-	-	29-Nov-21	29-Nov-21	29-Nov-31	1.180	1.24
	FY21 STI Deferral	23,634	-	23,634	-	-	29-Nov-21	29-Nov-22	29-Nov-31	1.180	1.18
	FY20 STI Deferral	12,653	-	12,653	-	-	2-Oct-20	2-Oct-21	2-Oct-30	2.012	2.012

1 The number of FY22STI rights granted to each participant in FY23 was 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 on 28th August 2022, being 0.256 respectively.

2 The closing balance of STI deferred rights at 30 June 2023 represents unvested STI Deferred rights for FY22 STI.

3 Mr Dingle was granted 597,188 STI Rights (298,594 STI Deferred Rights and 298,594 STI Non-Deferred Rights) as part of his remuneration package approved at the 2022 Annual General Meeting under Listing Rule 10.14. This grant relates to the FY22 STI Award. Should the merger be approved, the Board has determined that the 298,594 FY22 STI Deferred Rights for Mr Dingle will vest and be automatically exercised on the Scheme Record date. The Board requested and received approval from the ASX in relation to this.

2.1.10 Long Term Incentives

Executive KMP are granted awards as part of the long-term incentive plans. Incentives only vest if the performance and service conditions of the Plan are met. Given the impending merger the Board determined that it was not appropriate to issue the shareholder approved FY23 LTI grants for the CEO or any other senior executive. As disclosed in the Scheme Booklet should the transaction be approved by shareholders, all LTI plans will be cancelled for nil consideration. A Retention Plan has been approved by the Board which is disclosed in the Scheme booklet.

		Number of LTI Awards ¹										
	Plan	Balance 1 July 2022	Granted as Remuneration	Vested and Exercised	Lapsed	Balance 30 June 2023 ²	Grant Date	Vesting Date	Expiry Date	Exercise Price	Face Value	Fair Value
Managing Director - Jake Dingle ²	FY22 Options	1,210,826	-	-	-	1,210,826	20-Dec-21	28-Oct-24	20-Sep-26	\$1.60	\$0.32	0.12 & 0.13
	FY21 Rights	186,381	-	-	-	186,381	12-Nov-20	20-Sep-23	20-Sep-23	nil	\$2.01	\$2.16
	FY20 ESOP Options	1,273,419	-	-	-	1,273,419	23-Dec-19	29-Nov-22	29-Nov-24	\$2.60	\$2.60	\$0.77
Chief Financial Officer - Gerard Buckle	FY22 Options	678,062	-	-	-	678,062	20-Dec-21	28-Oct-24	20-Sep-32	\$1.60	\$0.32	0.12 & 0.13
	FY21 Rights	104,373	-	-	-	104,373	12-Nov-20	20-Sep-23	20-Sep-23	nil	\$2.01	\$2.16
	FY20 ESOP Options	356,557	-	-	-	356,557	23-Dec-19	29-Nov-22	29-Nov-24	\$2.60	\$2.60	\$0.77

2.1.11 Executive KMP Shareholdings

Table 14: Executive KMP shareholdings

		Number of Carbon Revolution Shares ³					
		Balance 1 July 2022	Granted as Remuneration	Acquired	Sold or transferred	Other	Balance 30 June 2023
CEO/Managing Director - Jake Dingle ⁴		3,737,430	298,594	134,838	-	-	4,170,862
Chief Financial Officer - Gerard Buckle ⁵		133,527	296,106	59,921	-	-	489,554

¹ Details regarding prior year LTI grants are described in the 2019 Prospectus and past Carbon Revolution Annual Reports.

² The FY23 LTI Rights that were approved as part of the 2023 remuneration package at the 2022 Annual General Meeting, under Listing Rule 10.14, were not made given the potential merger.

³ Carbon Revolution shares in which Executive KMP has a beneficial interest, including via related parties and spousal shareholders.

⁴ Mr Dingle had 298,594 FY22 STI Non-Deferred Rights issued that were exercised. The minimum value of this award is nil and the maximum value will be determined by the share price of the Company. Mr Dingle also exercised 33,548 FY20 STI Deferred Rights that vested on 12 November 2021 and 50,645 FY21 STI Deferred Rights that vested on 29th November 2022 and 50,645 FY21 Non-Deferred STI Rights.

⁵ Mr Buckle had 296,106 FY22 STI Non-Deferred Rights that were issued and exercised. The minimum value of this award is nil and the maximum value will be determined by the share price of the Company. Mr Buckle also exercised 23,634 FY21 STI Deferred Rights that vested on 29th November 2022 and 23,634 FY21 Non-Deferred STI Rights and 12,653 vested FY20 STI Deferred Rights. The balance includes 100,962 shares issued to Mr Buckle as part of his employment contract and which vested on 9th September 2022.

2.1.12 Non-Executive Director Remuneration (NED)

Policy and Arrangements

NEDs 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, with the most recent benchmarking using the Comparator Group of ASX200-300 companies.

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 15: Non-Executive Director (NED) fee schedule

Role	Annual fee for FY23 (including superguarantee)
Chair - Board (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

The Board undertook market benchmarking to determine appropriate changes to the compensation of directors as a result of the Transaction. The proposed changes are disclosed in the Scheme Booklet and will be effective from implementation if approved by shareholders.

Table 16: Non-Executive Directors' fees paid

Year ended 30 June 2023		Directors' fees \$	Directors' Fees Allocated in		Total \$
			Rights \$	Superannuation \$	
James Douglas (Chair)	FY23	171,946	-	18,054	190,000
	FY22	172,727	-	17,273	190,000
Lucia Cade	FY23	90,498	-	9,502	100,000
	FY22	90,909	-	9,091	100,000
Dale McKee	FY23	90,498	-	9,502	100,000
	FY22	90,909	-	9,091	100,000
Mark Bernhard	FY23	90,498	-	9,502	100,000
	FY22	90,909	-	9,091	100,000
Total NEDs	FY23	443,440	-	46,560	490,000
	FY22	450,642	-	45,064	495,706

2.1.13 Shareholdings

Table 17: Non-Executive Directors' shareholdings

	Number of Carbon Revolution Shares ¹				Balance 30 June 2023
	Balance 1 July 2022	Granted as Remuneration	Acquired	Other	
James Douglas	1,878,102	-	-	-	1,878,102
Lucia Cade	79,757	-	-	-	79,757
Dale McKee	124,717	-	-	-	124,717
Mark Bernhard	106,607	-	-	-	106,607

Table 18: NED Rights

Non-Executive Directors participated in the NED Salary Sacrifice Plan in FY21. The table below details movements and balances of NED Rights in FY23. As disclosed in the Scheme Booklet, the Board has determined that, subject to the Scheme becoming effective, the restrictions on these shares will cease (noting however that the MergeCo Shares issued to Mr Douglas and Ms Cade in connection with the cancellation of these restricted shares will be subject to the lock up arrangements also described in the Scheme Booklet).

Number of Carbon Revolution Shares ³									
	Balance 1 July 2022	Granted as Remuneration	Vested and Exercised	Lapsed	Balance 30 June 2023	Grant Date	Exercise Price	Face Value ³	Fair Value ⁴
James Douglas	28,226	-	-	-	28,226	12-Nov-20	nil	\$2.012	2.65
Lucia Cade	14,807				14,807	12-Nov-20	nil	\$2.012	2.65

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

2. These shares are the NED Rights that were exercised under the NED Fee Sacrifice Plan. The NED Rights were granted as part of the 2021 remuneration package as approved at the 2020 Annual General Meeting, under Listing Rule 10.14. The restriction period ends for Mr Douglas and Ms Cade on 26 February 2024.

3. The maximum number of NED Rights allocated was calculated by taking the Fee Sacrifice nominated by each NED and dividing this amount by the VWAP of a Share over the 20 trading days following the release of the Company's FY20 full-year financial results (on 25th August 2020), being \$2.012. The minimum value of the award is nil and the maximum value will be determined by the share price on exercising.

4. The fair value is provided by a third-party valuation at the time of grant.

2.1.14 Rights and Options Issued During or Since FY23

In compliance with section 300(1)(e) and (f) of the Corporations Act: a total of 5,500,503 rights were issued with 5,289,365 rights exercised, and 135,471 were forfeited during FY23. Nil options were issued, nil were exercised and 938,472 were forfeited during FY23. Since the end of FY23 up to the date of this report, no new rights or options were issued or exercised.

2.1.15 Other Transactions with KMP

There were no other transactions, including loans between Carbon Revolution and KMP (including their related parties), during FY23.

Other Disclosures

Principal Activities

The principal activities 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 supply chain constraints and higher cost of production materials.

Events arising since the end of the reporting period

Carbon Revolution announced on 22 September 2023 that MergeCo has entered into a securities purchase agreement (Securities Purchase Agreement) and other documents with OIC Structured Equity Fund I Range, LLC and OIC Structured Equity Fund I GPFA Range, LLC (fund vehicles affiliated with OIC) (SEF Documents), under which, subject to satisfaction or waiver of a number of conditions (including Implementation), MergeCo will issue Class A Preferred Shares in MergeCo (Preferred Shares) and a warrant (SEF Warrant) to OIC in exchange for initial gross proceeds of US\$35 million (\$54.7 million), with further proceeds to be available in tranches, comprising of up to US\$35 (\$54.7 million) million that will be deposited by OIC in an escrow account, which funds are subject to release upon satisfaction of further conditions and up to a further US\$40 million (\$62.5 million) in aggregate proceeds upon satisfaction of further conditions to be used for the development, construction, and/or retooling of future manufacturing facilities (Structured Equity Facility).

The Preferred Shares will result in OIC being provided with substantial positive and negative control rights in respect of MergeCo, and the SEF Warrant will entitle OIC to be issued up to 19.99% of the MergeCo Shares on issue on Implementation on a fully diluted basis.

Carbon Revolution announced on 22 September 2023 that MergeCo has entered into a securities purchase agreement (Securities Purchase Agreement) and other documents with OIC Structured Equity Fund I Range, LLC and OIC Structured Equity Fund I GPFA Range, LLC (fund vehicles affiliated with OIC) (SEF Documents), under which, subject to satisfaction or waiver of a number of conditions (including Implementation), MergeCo will issue Class A Preferred Shares in MergeCo (Preferred Shares) and a warrant (SEF Warrant) to OIC in exchange for initial gross proceeds of US\$35 million (\$54.7 million), with further proceeds to be available in tranches, comprising of up to US\$35 (\$54.7 million) million that will be deposited by OIC in an escrow account, which funds are subject to release upon satisfaction of further conditions and up to a further US\$40 million (\$62.5 million) in aggregate proceeds upon satisfaction of further conditions to be used for the development, construction, and/or retooling of future manufacturing facilities (Structured Equity Facility).

The Preferred Shares will result in OIC being provided with substantial positive and negative control rights in respect of MergeCo, and the SEF Warrant will entitle OIC to be issued up to 19.99% of the MergeCo Shares on issue on Implementation on a fully diluted basis.

Further details on the Structured Equity Facility are disclosed in Note 6.10 Subsequent events in the financial statements.

As part of the Structured Equity Facility, the Group amended the terms of the New Debt Program, which are further disclosed in Note 6.10 Subsequent events in the financial statements.

In addition, the Group is forecasting a breach of its cash covenants as of 30 September 2023 and expects to receive waivers as outlined in Note 1.3 Going Concern in the financial statements.

The Group has further entered into supplier and advisor fee deferrals as disclosed in Note 1.3 Going Concern and Note 6.10 Subsequent events in the financial statements.

Likely future developments

There is increasing customer demand for Carbon Revolution's wheels, as evidenced by the recorded number of active programs, and with the final stage of the first phase of the Mega-line development affecting production time and volume, the Company is well-positioned to deliver on its potential and purpose.

The Company continues to monitor the local and global uncertainties and disruptions faced by the global automotive industry in the near-term. The ongoing global shortage in the supply of semiconductors, other raw materials and general

Other Disclosures

continued

supply chain constraints continue to impact global car production and suppliers to it.

The Company expects other wheel programs to be announced in FY24 as part of OEM vehicle launches and to further progress other wheel development programs that will build on the success of the completed first phase of the Mega-line installation.

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
- 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 nor paid any dividends in respect of the 30 June 2023 Financial Year (2022: nil).

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 of 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 perceived to impair the external auditor's judgement or independence.

The external auditor has provided only services in relation to the audit and review of financial reports during the year. Details of amounts paid or payable to the external auditor during the year are outlined in Note 6.6 to the financial statements.

Deloitte has provided an independence declaration in accordance with section 307C of the Corporations Act, which is set out on page 48 and forms part of this Report.

Indemnification and insurance of the 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 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 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 thousand dollars, unless stated otherwise.

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



James Douglas

Chair

Geelong,

29 September 2023



Jake Dingle

Managing Director

Geelong,

29 September 2023

Corporate Governance Statement

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 that values ethical, lawful and responsible behaviour, accountability, fairness, transparency and respect for others.

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. The framework promotes responsible management and conduct of Carbon Revolution.

Carbon Revolution's governance framework is consistent with the 4th edition of the ASX Corporate Governance Principles and Recommendations ('ASX Recommendations'), unless otherwise indicated in the Carbon Revolution 2023 Corporate Governance Statement. Carbon Revolution's Corporate Governance Statement is released to the ASX simultaneously as the 2023 Annual Report and available at <https://investors.carbonrev.com/annual-reports>

Copies of Carbon Revolution's Code of Conduct (including its Values), key corporate governance policies and the charters for the Board and each of its committees are available at <https://www.carbonrev.com/investors.carbonrev.com/investor-centre/corporate-governance>

The Corporate Governance Statement was approved by the Board and is current as of 29 September 2023.

29 September 2023

The Board of Directors
Carbon Revolution Limited
75 Pigdons Road
Deakin University
WAURN 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 2023, I declare to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- Any applicable code of professional conduct in relation to the audit.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Shodai Enters
Partner
Chartered Accountants

Contents

	Consolidated Statement of Profit or Loss and Other Comprehensive Income
	Consolidated Statement of Financial Position
	Consolidated Statement of Changes in Equity
	Consolidated Statement of Cash Flows
	Notes to the Financial Statements
1	Basis of preparation
1.1	Corporate information
1.2	Basis of preparation
1.3	Going concern
1.4	Basis of consolidation
1.5	Significant accounting- judgements, estimates and assumptions
1.6	Goods and Services Tax (GST)
2	Operating performance
2.1	Revenue from contracts with customers
2.2	Other income
2.3	Segments
2.4	Expenses
2.5	Earnings per share
3	Operating assets and liabilities
3.1	Receivables
3.2	Inventories
3.3	Property, plant and equipment
3.4	Leases
3.5	Intangible assets
3.6	Payables
3.7	Deferred income
3.8	Provisions
4	Capital structure and financing
4.1	Cash and cash equivalents, restricted trust fund
4.2	Borrowings and other financial liabilities
4.3	Financial risk management
4.4	Contributed equity
4.5	Share based payment plan arrangements
4.6	Reserves
4.7	Transaction costs
5	Taxes
5.1	Income tax expense
5.2	Deferred taxes
5.3	Recognised deferred tax assets and liabilities in statement of financial position
5.4	Carry forward unrecognised tax losses and R&D tax credits
6	Other notes
6.1	Information about subsidiaries
6.2	Deed of cross guarantee
6.3	Directors and key management personnel
6.4	Transactions with related parties
6.5	Parent entity disclosures
6.6	Auditor's remuneration
6.7	Unrecognised items
6.8	Changes in accounting policies
6.9	Adoption of new and revised Australian Accounting Standards
6.10	Subsequent events

Consolidated Statement of profit or loss and other comprehensive income

for the Year Ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Sale of wheels		37,477	38,276
Engineering services		530	464
Sale of tooling		253	1,596
Revenue	2.1	38,260	40,336
Cost of goods sold	3.2.1	(55,094)	(57,445)
Gross loss		(16,834)	(17,109)
Other income	2.2	3,096	4,320
Operational expenses		(2,997)	(2,013)
Research and development expenses	2.4	(16,180)	(16,933)
Administrative expenses		(14,566)	(13,146)
Marketing expenses		(1,494)	(1,550)
Capital raising transaction costs	4.7	(24,746)	-
Finance costs	2.4	(5,502)	(1,390)
Loss before income tax expense		(79,223)	(47,821)
Income tax expense	5	-	-
Loss for the year after income tax		(79,223)	(47,821)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences - foreign operations		(62)	(147)
Other comprehensive loss		(62)	(147)
Total comprehensive loss for the year, net of tax		(79,285)	(47,968)
Earnings per share			
Basic	2.5	(\$0.38)	(\$0.23)
Diluted	2.5	(\$0.38)	(\$0.23)

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Financial Position

as at 30 June 2023

	Note	2023 \$'000	2022 \$'000
Current assets			
Cash and cash equivalents	4.1	19,582	22,693
Restricted trust fund	4.1	14,677	-
Receivables	3.1	6,430	14,483
Contract assets	2.1	8,239	5,909
Inventories	3.2	22,173	20,164
Other current assets		378	1,587
Total current assets		71,479	64,836
Non-current assets			
Property, plant and equipment	3.3	62,638	57,616
Right-of-use assets	3.4	7,446	7,564
Intangible assets	3.5	16,774	14,364
Total non-current assets		86,858	79,544
Total Assets		158,337	144,380
Current liabilities			
Payables	3.6	15,474	9,502
Borrowings	4.2	13,829	18,686
Lease liability	3.4	645	579
Contract liability	2.1	748	458
Deferred income	3.7	1,919	1,028
Provisions	3.8	12,957	4,161
Total current liabilities		45,572	34,414
Non-current liabilities			
Borrowings	4.2	70,833	4,333
Lease liability	3.4	7,368	7,461
Contract liability	2.1	1,755	323
Deferred income	3.7	15,235	5,211
Provisions	3.8	1,843	713
Total non-current liabilities		97,034	18,041
Total Liabilities		142,606	52,455
Net Assets		15,731	91,925
Equity			
Contributed equity	4.4	386,432	383,822
Reserves	4.6	7,166	6,747
Accumulated losses		(377,867)	(298,644)
Total Equity		15,731	91,925

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Changes in Equity

for the Year Ended 30 June 2023

	Note	Contributed Equity \$'000	Share buyback reserve \$'000	Share based payment reserve \$'000	Accumulated losses \$'000	Foreign currency translation reserve \$'000	Total equity \$'000
Balance as at 30 June 2021		381,890	(311)	5,979	(250,823)	(9)	136,726
Net loss after tax for the full year		-	-	-	(47,821)	-	(47,821)
Other comprehensive loss for the full year		-	-	-	-	(147)	(147)
Total comprehensive loss for the full year		-	-	-	(47,821)	(147)	(47,968)
Transactions with owners in their capacity as owners							
Share-based payments	4.4	1,932	-	1,235	-	-	3,167
Total transactions with owners in their capacity as owners		1,932	-	1,235	-	-	3,167
Balance as at 30 June 2022		383,822	(311)	7,214	(298,644)	(156)	91,925
Balance as at 30 June 2022		383,822	(311)	7,214	(298,644)	(156)	91,925
Net loss after tax for the full year		-	-	-	(79,223)	-	(79,223)
Other comprehensive loss for the full year		-	-	-	-	(62)	(62)
Total comprehensive loss for the full year		-	-	-	(79,223)	(62)	(79,285)
Transactions with owners in their capacity as owners							
Share-based payments	4.4	2,610	-	481	-	-	3,091
Total transactions with owners in their capacity as owners		2,610	-	481	-	-	3,091
Balance as at 30 June 2023		386,432	(311)	7,695	(377,867)	(218)	15,731

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Cash Flows

	Note	2023 \$'000	2022 \$'000
Cash flow from operating activities			
Receipts from customers		45,742	33,643
Receipt of grants and research and development incentives	3.7	15,446	3,767
Payments to suppliers and employees		(80,215)	(81,005)
Interest received		61	94
Capital raising transaction costs	4.7	(9,030)	-
Borrowing costs	4.2	(20,676)	-
Finance costs		(3,810)	(2,475)
Net cash used in operating activities	4.1.2	(52,482)	(45,976)
Cash flow from Investing Activities			
Payments for Property, Plant and Equipment	3.3	(13,082)	(15,634)
Payments for Intangible Assets	3.5	(4,874)	(6,007)
Sales proceeds from sale of Property, Plant and Equipment	3.3	3	-
Net cash used in investing activities		(17,953)	(21,641)
Cash flow from financing activities			
Proceeds from third party borrowings	4.2	124,963	33,657
Repayment of third-party borrowings	4.2	(43,212)	(29,370)
Reclassification to restricted trust fund	4.2	(14,677)	-
Capital raising transaction costs		-	(422)
Repayment of lease liability		(604)	(596)
Net cash provided by financing activities	4.1.3	66,470	3,269
Net decrease in cash held		(3,965)	(64,348)
Cash at beginning of financial year		22,693	87,257
Effects of exchange rate changes on cash and cash equivalents		854	(216)
Cash at end of financial year		19,582	22,693

The accompanying notes form an integral part of these financial statements

Notes to the financial statements

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 statements. Where an accounting policy is specific to one note, the policy is described within the note to which it relates.

The financial statements were authorised for issue by the directors as of 29 September 2023.

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, Australia

On November 29, 2022, the Company, Twin Ridge Capital Acquisition Corp. ("Twin Ridge"), Carbon Revolution Public Limited Company (formerly known as Poppetell Limited), a public limited company incorporated in Ireland ("MergeCo") and Poppetell Merger Sub, a Cayman Islands exempted company and wholly-owned subsidiary of MergeCo ("Merger Sub"), entered into a Business Combination Agreement, and the Company, Twin Ridge and MergeCo entered into a Scheme Implementation Deed. Consummation of the Business Combination (the "Transaction"), which is expected to result in MergeCo becoming publicly listed in the U.S., is subject to approval by the Company's shareholders, Twin Ridge's shareholders and applicable regulatory institutions.

Under the Scheme Implementation Deed, the Group has agreed to propose a scheme of arrangement under Part 5.1 of the Corporations Act ("Scheme") and capital reduction under Part 2J.1 of the Corporations Act ("Capital Reduction") which, if implemented, will result in all shares of Carbon Revolution being cancelled in return for the issuance of MergeCo Ordinary Shares, with MergeCo then being issued one share in Carbon Revolution (resulting in the Group becoming a wholly-owned subsidiary of MergeCo), subject to Carbon Revolution shareholder approval, Australian court approval and the satisfaction of various conditions.

1.2 Basis of preparation

The Group financial statements are general purpose financial statements which:

- Have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB");
- 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;
- Are presented in Australian dollars, which is the Group's functional and presentation currency;
- Have been rounded to the nearest thousand dollars, unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191;
- The Group has elected to present the statement of profit or loss and other comprehensive income using the function of expense method.

In accordance with the announcements to the Australian Securities Exchange on 31 January 2023 and 27 February 2023 the Company re-issued its financial report for the year ended 30 June 2022 on 27 February 2023. The comparative financial information contained within this financial report is that contained within/from the reissued financial report dated 27 February 2023.

1.3 Going concern

Background

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

Carbon Revolution is an advanced technology manufacturing business which is in the process of industrialising and scaling up its production processes. At this pre-profitability stage of Carbon Revolution's business lifecycle, it is essential that it has sufficient funding to meet its working capital requirements, as well as to fund the Group's ongoing research and development of its products, material and process technologies, and investment in the expansion of its production facility (Mega-Line) required to achieve profitability and positive cash generation.

For the year ended 30 June 2023, the Group incurred an operating loss after tax of \$79.2 million (2022: \$47.8 million) and had negative cash flows from operating activities of \$52.3 million (2022: \$46.0 million), with a net current asset position of \$25.9 million (2022: \$30.4 million) and a cash and cash equivalent balance of \$19.6 million as of 30 June 2023 (2022: \$22.7 million).

Subsequent to 30 June 2023 the Group continues to be loss making and has negative cash flows from operating activities. As at 31 August 2023, cash and cash equivalents amounted to \$7.3 million.

Carbon Revolution has prepared a detailed cash flow projection for the 12-month period from 29 September 2023 (the "Cash Flow Projection") in connection with its assessment of its current and projected liquidity, including its financing needs and ability to continue as a going concern.

Based on projected costs related to the Transaction, revenue and operating costs, research and development costs, working capital needs, and capital expenditure plans, the Group must raise debt and/or equity of approximately \$105 million to allow the Group to continue as a going concern over the next 12 month period.

Based on the Cash Flow Projection, the Group must receive funding from the First Tranche of the Structured Equity Facility described below before 31 October 2023 to allow the Group to continue as a going concern.

Further, based on the Group's Cash Flow Projection, to continue as a going concern through to 31 October 2023, the Group must receive advance payments from one of its key customers totalling \$4.8 million in the period from the date of issuance of these financial statements to 31 October 2023.

Carbon Revolution projects in the Group's Cash Flow Projection:

- Net cash outflows (excluding costs related to the Transaction) of approximately \$74.1 million, being cash inflows from customers (and grants), less operating costs, research and development costs, working capital needs, principal repayments, and capital expenditure;
- Net cash inflows from financing activities of \$78.8 million, consisting primarily of \$105 million of funding projected to be raised by the way of accessing the first tranche of the OIC Structured Equity Facility net of transaction costs (\$54.7 million), meeting the First Reserve Release Condition (\$7.7 million) and raising new funding or accessing the CEF of \$42.3 million, offset by transaction costs of \$25 million consisting of:
 - \$14.4 million (including \$11.7 million in Transaction costs and \$2.7 million of costs related to the Structured Equity Facility) payable within the next four months; and
 - deferred Transaction costs of \$10.6 million payable during the remainder of the projection period;
- The Implementation of the Transaction will occur in October 2023, with initial funds from the Structured Equity Facility (refer below), included in the net cash inflows from financing activities discussed above, being received by the Group by the end of October 2023.

Cash Flow and Liquidity Initiatives

As of the date of issuance of the financial statements, the Group is pursuing the following funding, cash flow and liquidity improvement initiatives:

Structured Equity Facility

Carbon Revolution announced on 22 September 2023 that MergeCo has entered into a securities purchase agreement (Securities Purchase Agreement) and other documents with OIC Structured Equity Fund I Range, LLC and OIC Structured Equity Fund I GPFA Range, LLC (fund vehicles affiliated with OIC) (SEF Documents), under which, subject to satisfaction or waiver of a number of conditions (including Implementation), MergeCo will issue Class A Preferred Shares in MergeCo (Preferred Shares) and a warrant (SEF Warrant) to OIC in exchange for initial gross proceeds of US\$35 million (\$54.7m), with further proceeds to be available in tranches, comprising of up to US\$35 million (\$54.7 million) that will be deposited by OIC in an escrow account, which funds are subject to release upon satisfaction of further conditions and up to a further US\$40 million (\$62.5 million) in aggregate proceeds upon satisfaction of further conditions to be used for the development, construction, and/or retooling of future manufacturing facilities (Structured Equity Facility).

MergeCo and the Group have entered into a guarantee agreement whereby MergeCo guaranteed that the funds from the Structured Equity Facility will be made available unconditionally to the Group.

Under the Structured Equity Facility:

- Subject to satisfaction of certain conditions precedent, MergeCo will issue US\$35 million (\$54.7 million) of Preferred Shares to OIC (Initial Tranche) and receive US\$35 million (\$54.7 million) in aggregate gross proceeds, less amounts applied to cover certain transaction costs and an initial structuring premium payable to an entity associated with OIC of US\$1.75 million (\$2.7 million) (Initial Structuring Premium). Completion of the Initial Tranche will occur within 15 business days after satisfaction of the relevant conditions precedent (Initial Closing), which includes, amongst other conditions, Implementation of the Transaction.
- Subject to the same conditions as the Initial Tranche, US\$35 million (\$54.7 million) will be deposited into an escrow account controlled by OIC (Reserve Funds).
- Subject to and on the satisfaction of further conditions, MergeCo will issue US\$5 million (\$7.8 million) of Preferred Shares to OIC and receive US\$5 million (\$7.8 million) in funding from the Reserve Funds if, prior to the Second Reserve Release (as defined below), MergeCo receives aggregate gross proceeds of at least US\$10 million (\$15.6 million) from one or more issuances and sales of MergeCo Shares to one or more third party persons (other than OIC and its affiliates) (First Reserve Release).
- Subject to and on the satisfaction of further conditions by 1 December 2024, or if MergeCo continues to work in good faith to satisfy the relevant condition, 31 January 2025, MergeCo will issue Preferred Shares to OIC equal in amount to the remaining Reserve Funds plus accrued interest and receive the remaining Reserve Funds (Second Reserve Release).
- In the 24 months following the Initial Closing, MergeCo will, to the extent additional financing is necessary for the development, construction and/or tooling associated with any future manufacturing facility or for material upgrades to Carbon Revolution's existing Mega-line plant operations in Australia (Plant Investments), have the right, subject to meeting certain conditions described below, to request that OIC subscribe for up to US\$40 (\$61.5) million of further Preferred Shares less a 2% subsequent structuring premium (Subsequent Financing). Completion of any such Subsequent Financing is subject to approval by OIC's investment committee.

The proceeds received from the issuance of Preferred Shares under the Structured Equity Facility must generally be used consistent with a budget agreed between MergeCo and OIC. In connection with the Structured Equity Facility, an affiliate of OIC will receive a 'monitoring fee' of US\$80,000 (\$123,000) per year for so long as the Preferred Shares remain on issue.

There are a number of conditions precedent which need to be satisfied or waived for each of the tranches before the completion of the subscription for and issuance of Preferred Shares under the Structured Equity Facility, including a condition that prior to the Initial Closing, the Group has not received any notification from a key customer that would lead OIC to conclude, in its reasonable discretion, that the bailment and pre-payment arrangement ("Advance Payment

Arrangement”) undertaken by the customer and the Group in the ordinary course of dealing will not continue to be applied to future sales of the Group’s products to the customer. The full list of the conditions precedent are documented in detail in note 6.10 Subsequent Events. The directors believe that all of the conditions precedent will be met.

There are risks associated with the Structured Equity Facility including but not limited to:

- The Transaction may not close;
- The conditions precedent might not be met;
- There are no assurances as to when the closing conditions for the Structured Equity Facility for the Initial Tranche, Reserve Funds or Subsequent Financing will be satisfied or whether the Structured Equity Facility will complete;
- MergeCo’s ability to raise further capital is subject to consent from OIC;
- The MergeCo Board may not be able to act in the best interests of MergeCo or MergeCo Shareholders as a result of the terms of the SEF Documents that impose obligations on MergeCo or restrict MergeCo’s ability to engage in some business activities, which could materially adversely affect MergeCo’s business, results of operations and financial condition.

Advance Payment Arrangement

The Group has entered into bailment and advanced payment arrangements over the last 12 months with one of its key customers for shipped goods to be paid in advance in exchange for certain discounts. As of the date of issuance of these financial statements, the Group has one pending request for a bailment and advance payment arrangement for \$2.3 million, which the Group projects to be received in September 2023. The Group plans to request another bailment and advance payment arrangement for \$2.5 million in early October 2023, which the Group projects to receive on 20 October 2023.

There are risks associated with the bailment and advance payment arrangements including but not limited to:

- There is no contractual arrangement with the key customer that requires it to accept the request for the bailment and advance payments;
- The customer may not accept the Group’s request for the bailment and advance payments;
- There may be a delay in the customer accepting and making the bailment and advance payments;
- Based on the Group’s Cash Flow Projection, to continue as a going concern through to 31 October 2023, the Group must receive the advance payments totalling \$4.8 million in the period from the date of issuance of these financial statements to 31 October 2023.

New Equity

In addition to the Structured Equity Facility the Group’s Cash Flow Projection includes the Group raising gross funds of approximately US\$27.5 million (\$42.3 million) in connection with the partial use of the Group’s US\$60 million (\$92.3 million) Committed Equity Facility (“CEF”). The Cash Flow Projection projects US\$10 million (\$15.4 million), \$US7.5 million (\$11.5 million), and \$US10 million (\$15.4 million) of gross funds will be raised in February 2024, April 2024, and June 2024, respectively. The Cash Flow Projection also includes deferred transaction costs of \$10.6 million to be paid from these funds, according to the terms of the Vendor Deferral Arrangement (see below).

In addition to the CEF, the SPAC has also engaged Craig-Hallum Capital Group LLC to act as placement agent and capital markets advisor to support the Combined Group in potentially raising additional funding. Craig-Hallum has in particular been engaged to identify and contact potential investors, formulate a strategy, coordinate due diligence and assist in preparing any offering documents.

There are risks associated with the New Equity raising activities including but not limited to:

- the Transaction may not be completed, or may be materially delayed;
- there may be a delay in the availability of the CEF (the CEF will not be available until after Implementation and the filing by MergeCo with the SEC of a registration statement for the resale of the MergeCo Shares, and such registration statement being declared effective by the SEC);
- the Group's advisors that will be assisting in raising capital through the CEF may be unable to dispose of the shares of MergeCo on an ongoing basis. As the terms of the CEF will not require the advisor to purchase additional shares under the CEF beyond an overall ownership of 9.99% (the CEF Ownership Restriction) or US\$10 million (\$15.4 million) per week, whichever is lower, the Combined Group may have access to materially less than the US\$27.5 million projected to be drawn under the CEF during the next 12 months;
- In order for MergeCo to be able to draw down on the next advance, the CEF provider will be required to sell some or all of its MergeCo Shares issued as part of the first advance on market which, in the absence of significant demand for MergeCo Shares, may put significant downward pressure on the trading price. This may cause the 9.99% shareholding cap under the next advance to be reached in conjunction with a lower US\$ amount of cash raised under the CEF. This mechanism may create a downward spiral in the share price of MergeCo which may prevent CBR from being able to utilise the CEF to create liquidity;
- When MergeCo lodges a request to drawdown an amount of equity from the CEF, the CEF Provider is specifically permitted to sell the shares in MergeCo during the period between lodgement of the request to drawdown and the date the shares are issued to it so that it may manage its risk should it need to. The agreement for the CEF deems a request to drawdown equity from the CEF to be an unconditional contract that is binding on both parties.
- The CEF Provider is permitted to sell the shares in MergeCo for which it is bound to subscribe, before it is issued with them, and before it has paid the subscription price. This might be characterised as short selling of the MergeCo shares. Accordingly, there exists the potential for the CEF Provider to place downward pressure on the trading price of MergeCo Shares on the public market by short selling shares it does not yet own. This effect is more severe under the CEF than other ordinary short selling arrangements because the CEF Provider will not subsequently re-enter the public market to purchase the shares it has already sold (and by doing so, provide support for the trading price) but will instead simply deliver, to either the lender of the covered position or the purchaser if the short sale was naked, the shares subscribed for under the CEF when they are issued; and
- the Combined Group may not be able to raise further equity funds from sources other than the CEF in the amounts and within the timeframes necessary for the Combined Group to remain solvent and to comply with its liquidity covenants, on satisfactory terms, or at all.

USD Term Loan Breach Waiver

The Group has forecast breaches to its debt service reserve and minimum cash requirement at 30 September 2023 under its USD term loan with PIUS (also referred to as the New Debt Program).

The Group has received indication from the lender that they will agree to waive these covenants for September and October 2023, with the tests resuming in November 2023. As of the date of issuance these financial statements, the lender is in the process of preparing an amendment to formally document the waiver. Refer note 4.2 Borrowings and Other Financial Liabilities for further details on the USD Term Loan.

The abovementioned four initiatives, being the Structured Equity Facility, Advance Payment Arrangement, New Equity and USD Term Loan Breach Waiver remain in progress, and are fundamental to the achievement of the Cash Flow Projection.

Other initiatives

As of the date of issuance of the financial statements, the Group has entered into the following cash flow, liquidity improvement, and funding initiatives:

- The Group reached agreement with certain suppliers to defer total payments of \$8.9 million including future invoices during the deferral period. Under the terms of these agreements, the deferred payments are required to be made in November 2023.
- The Group reached agreement with certain of its advisers relating to the deferral of \$23.7 million of fees owed to them at Implementation, with \$10.6 million of these fees projected to be payable during the next 12 month period.
- In connection with the Structured Equity Facility, the Group obtained certain amendments to terms of the New Debt Program. Refer Note 6.10 Subsequent Events.

Conclusion

The Cash Flow Projection projects that the Group will have sufficient funds to meet its commitments over the next twelve months based on the successful implementation of all of the above funding, cash flow and liquidity improvement initiatives. The directors consider they have reasonable grounds to believe that they will be successful in obtaining sufficient funding through measures such as the Structured Equity Facility, Advance Payment Arrangement, New Equity and USD Term Loan Waiver. For these reasons the financial statements have been prepared on the basis that the Group is a going concern.

Should sufficient funding not be secured through the Structured Equity Facility, Advance Payment Arrangement, New Equity, or USD Term Loan Breach Waiver, or should there be a delay in the timing of Implementation of the Transaction or these initiatives, or should Implementation of the Transaction not occur at all (including if Carbon Revolution ceases to be funded before Implementation or breaches its liquidity covenant and the Servicer exercises its rights under the New Debt Program), this would have adverse implications for Carbon Revolution, Carbon Revolution Shareholders and creditors of Carbon Revolution. As Carbon Revolution is not yet profitable and does not yet derive positive net operating cash flows (and does not expect to be profitable or be able to derive positive net operating cash flows in the 12 month period of the Cash Flow Projection), in these scenarios, including if Implementation of the Transaction is delayed beyond October 2023 or does not occur, in order to remain viable, Carbon Revolution will need to seek other funding and liquidity options which may not be available.

Should the Transaction be completed but sufficient liquidity not be secured through the above funding initiatives, or should there be a delay in the timing of securing funds through these funding initiatives, this would have adverse implications for the Group, Carbon Revolution Shareholders and its creditors. In these scenarios, the Group will need to seek other options, including seeking further liquidity support from customers and suppliers, delaying or reducing operating and capital expenditure, seeking waivers in respect of potential covenant breaches, the possibility of an alternative transaction or fundraising, and in the event that none of these are available, liquidation.

Based on the factors above, a material uncertainty exists which may cast significant doubt as to whether the Group will continue as a going concern and therefore whether it will realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial statements.

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

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.

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 consolidation financial statements are included in the following notes.

Note 3.2 Inventories

Note 3.3 Property, plant and equipment

Note 3.5 Intangible assets

Note 3.7 Deferred income

Note 4.2 Borrowings and other financial liabilities

Note 4.7 Transaction costs

Note 5.5 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 from contracts with customers

In addition to the comments in Note 2.2.1 the disclosure requirements arising from AASB 15, Revenue from Contracts with Customers, are grouped together in this note.

	2023 \$'000	2022 \$'000
Disaggregation of revenue		
External revenue by product line		
Sale of wheels	37,477	38,276
Engineering services	530	464
Sale of tooling	253	1,596
Total revenue	38,260	40,336
	2023 \$'000	2022 \$'000
External revenue by timing of revenue		
Goods transferred at a point in time	18,885	15,730
Goods transferred over time	18,592	22,546
Services transferred at a point in time	253	1,277
Services transferred over time	530	783
Total revenue	38,260	40,336
	2023 \$'000	2022 \$'000
Contract asset		
Opening balance	5,909	-
Additions	24,821	5,909
Advance payments	(13,064)	-
Transfer to trade receivables	(9,427)	-
Total contract asset	8,239	5,909
	2023 \$'000	2022 \$'000
Contract liability		
Opening balance	781	-
Additions	2,505	781
Revenue recognised	(783)	-
Total contract liability	2,503	781
Contract liability – current	748	458
Contract liability – non current	1,755	323
Total contract liability	2,503	781

2.2 Other income	2023 \$'000	2022 \$'000
Government grants	2,777	3,506
Interest income	61	94
Foreign exchange gain	-	448
Other income	258	272
Total other income	3,096	4,320

2.2.1 Information about revenue and other income

In accordance with AASB 15 Revenue from Contracts with Customers, Carbon Revolution recognises as revenue from contracts with customers the amount that is received as consideration for the transfer of goods or services to customers. The relevant point in time or period of time is the transfer of control of the goods or services to the customer (control approach).

To determine when to recognise revenue and at what amount, the five-step model is applied. By applying the five-step model to contracts with customers, distinct performance obligations are identified. The transaction price is determined – and allocated to the performance obligations – according to the requirements of AASB 15. The allocation of the transaction price in the case of more than one performance obligation at hand would be performed by using observable prices if possible. Otherwise, the allocation would be performed using the adjusted market assessment approach or the approach of cost plus a margin. For every performance obligation that, in accordance with AASB 15, is distinct within the context of the contract, the revenue recognition is determined to be at a point in time or to be satisfied over time.

Sale of wheels and tooling

Revenue from the sale of Carbon Revolution wheels and tooling is based on the contracted sales price. Discounts on the invoice amounts can be granted to the customer in return for significant advance payments. All sales relate to customer-specific products and revenue is recognised over time when there is an enforceable right to payment and no alternative use. Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. Payment terms for both revenue recognised over time and at a point in time depend on the individual customer and are on average between 60 and 120 days.

Sales are recognised when control is transferred. Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The output-based measurement method is used for revenue recognised over time based on products ready to be picked up by the customer or shipped to the customer or where applicable a practical expedient is used based on the date of invoice.

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 is recorded at the time of the product sale based on an assessment of possible future claims, historically, Carbon Revolution has not experienced material warranty claims.

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.

In certain circumstances where a contract to provide engineering, design and testing services is only fulfilled with the delivery of certain prototypes, the revenue is recognised at a point in time. The recognition occurs when Carbon Revolution transfers the prototype wheels to the buyer and with it the significant risks and rewards of ownership, in accordance with the relevant customer contracted commercial terms.

Contract assets and contract liabilities

Contract assets arise from customer-specific goods and services where performance obligations are delivered in advance of invoicing for revenue recognised over time. Contract assets are reduced when the customer is invoiced.

Contract liabilities include advance payments by customers for deliveries of goods and for services to be performed. In the case of these advance payments by customers for deliveries of goods and for services to be performed, for which contract liabilities are recognised, the customer has already paid the consideration – or part of the consideration – but the Group has not yet satisfied its performance obligation, or has done so only to a limited extent. The provision of the corresponding services to the customers by the Group in these cases reduces the level of the associated contract liabilities.

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 amounts received or receivable by the Group. Grants 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. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

2.3 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 \$35.8 million (2022: \$39.3 million) which arose from sales to the Group's three major international customers, representing more than 94% of the Group's revenue. No other single customers contributed 10 per cent or more to the Group's revenue in either 2022 or 2023.

Revenue and non-current assets by geography comprise:

	2023 \$'000	2022 \$'000
Revenue		
International	38,260	40,336
Domestic	-	-
	38,260	40,336
Non-current assets		
International	-	-
Domestic	86,858	79,544
Total	86,858	79,544

2.4 Expenses

	2023 \$'000	2022 \$'000
Finance Costs		
Interest on third party loans	2,676	552
Interest on lease liabilities	297	301
Finance costs	1,448	-
Supplier financing costs	446	213
Interest other	635	324
	5,502	1,390
Salaries and employee benefit expense		
Wages and salaries	39,023	33,370
Post-employment benefits (defined contribution plans)	3,379	2,838
Share-based payments expense	3,091	3,167
	45,493	39,375
Depreciation and amortisation		
Property, plant and equipment	7,382	6,919
Right of use assets	696	656
Capitalised development costs	2,376	1,307
Patents and trademarks	89	84
	10,543	8,966
Research and development expense		
Research and development	16,180	16,933

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.

Depreciation is mainly included in cost of goods sold with minority of costs in research and development expense as it is directly attributable to the cost of producing wheels and developing new carbon fibre wheel core technologies and structures. The depreciation periods and method for each class of assets are:

Class of fixed asset	Depreciation method	Depreciation method
Leasehold improvements	Shorter of 20 years or the remaining term of the lease	Straight line
Manufacturing plant & equipment	2 to 10 years	Diminishing value
Tooling	3 to 10 years	Diminishing value
Other equipment	3 to 5 years	Diminishing value

Research and development expenses

Research and development expenses primarily consist of

- (i) purchases of supplies and materials used in our research and development projects,
- (ii) salaries, bonuses and related expenses for personnel engaged in research and development,
- (iii) consumption of low-value consumables used in our research and development projects,
- (iv) depreciation of property, plant and equipment used in connection with our research and development efforts, and
- (v) amortisation of capitalised development costs.

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:

	2023 \$'000	2022 \$'000
The following reflects the income used in the basic and diluted earnings per share computations:		
a) Earnings used in calculating earnings per share		
Net loss attributable to ordinary equity holders of the parent	(79,223)	(47,821)
b) Weighted average number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	208,504	205,938
Effect of dilution	2023 \$'000	2022 \$'000
Share options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	208,504	205,938
Loss per share (basic and diluted in cents)	(\$0.38)	(\$0.23)

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of the completion of this financial report.

Diluted earnings per share is calculated as net loss divided by the weighted average number of ordinary shares and dilutive potential ordinary shares. Options granted under Long Term Incentive ("LTIP"), Short Term Incentive ("STI"), Tax-exempt Employee Share Ownership ("TESP"), Employee Stock Ownership ("ESOP"), Salary Restructure Scheme ("SRS") and Non-Executive Director Fee Sacrifice ("NED Plan") plans would generally be included in the calculation due to the conditions of issuance being satisfied. As the Group is in a loss position, the options are anti-dilutive and, accordingly, the basic loss per share is the same as the diluted loss per share.

A total number of 9,956,243 options/rights outstanding at 30 June 2023 (2022: 10,123,403) were anti-dilutive and were therefore excluded from the weighted average number of ordinary shares for the purpose of diluted earnings per share.

These options related to the following option plans:

	2023 No.	2022 No.
ESOP	4,945,959	4,996,896
LTIP	3,151,950	3,334,183
Total	8,097,909	8,331,079
Performance rights	2023 No.	2022 No.
NED Plan	43,033	43,033
LTIP	688,142	718,345
STI	851,613	595,363
TESP	233,248	321,803
SRS	42,298	113,780

Total	1,858,334	1,792,324
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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	2023 '\$000	2022 '\$000
Trade receivables		
Not past due	4,220	7,591
Past due 1-30 days	623	3,433
Past due 31-90 days	443	1,445
Past due 90 days and over	216	684
Total	5,502	13,153
Allowance for impairment losses	(119)	-
Trade receivables	5,383	13,153
Apprenticeship grant funding	25	479
Other receivables	267	236
GST recoverable	755	615
Trade and other receivables	6,430	14,483

3.1.1 Information about receivables

Trade and other receivables are measured at the transaction price in accordance with AASB 15.

The Group makes use of the simplified approach in the 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 a small provision for long overdue receivables. Management has assessed the risk of credit losses as minimal given the credit rating of its customers.

In reaching this view on expected credit losses and having regard to the current environment management has performed a review on an individual customer basis including monitoring customer performance and timing of payments. All sales are with major international Original Equipment Manufacturer ("OEM") customers, which do not have any risk of credit loss on the basis of viability and transaction history.

3.2 Inventories	2023 '\$000	2022 '\$000
Current		
Raw materials	13,301	7,646
Work in progress	5,772	9,688
Finished goods	3,649	4,318
Consumables and spare parts	2,560	3,276
Provision for impaired wheels	(3,109)	(4,764)
Inventories at the lower of cost and net realisable value	22,173	20,164

3.2.1 Information about inventories and significant estimates

Inventories are valued at the lower of cost and net realizable value. Net realizable value (NRV) 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.
- 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 provision for impaired wheels related to wheels that require additional rework or for obsolete stock.

Amounts recognised in profit or loss

Inventories recognised as an expense during the year ended 30 June 2023 amounted to \$54.6 million (2022: \$57.0 million). These were included in cost of goods sold.

During the year \$4.4 million (2022: \$4.0 million) of obsolescence and scrap were recognised as an expense and included in cost of goods sold in the consolidated statement of profit and loss and comprehensive income.

Cost of goods sold relating to wheels includes raw materials, consumables, associated freight, labour costs and depreciation and overheads costs directly attributable to the manufacture of products. Overhead costs include salaries and related personnel expenses as well as facility and operating costs. Where applicable shipping and handling costs are included in cost of goods sold. Separately calculated and allocated to costs of goods sold are costs relating to warranty provision and production scrap. Warranty costs are estimated based on historical production failure rates and production costs, while scrap costs incurred in the normal production of the wheels are included in cost of goods sold.

Cost of goods sold relating to engineering revenue includes labour costs, material and contractor costs.

Cost of goods sold relating to tooling relates to third party expenses for tooling purchases.

Critical accounting estimates and judgement

Management's judgement is applied in determining the provision for impaired wheels.

Impaired 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.

3.3 Property, plant and equipment

	Capital works in progress \$'000	Leasehold improvements \$'000	Manufacturing equipment \$'000	Tooling \$'000	Other equipment \$'000	Total \$'000
Gross cost	18,950	5,649	40,454	14,326	2,784	82,163
Less accumulated depreciation	-	(1,355)	(14,070)	(7,618)	(1,504)	(24,547)
At 30 June 2022	18,950	4,294	26,384	6,708	1,280	57,616
Gross cost	17,095	5,839	52,640	16,034	2,960	94,568
Less accumulated depreciation	-	(1,642)	(18,467)	(9,964)	(1,857)	(31,930)
At 30 June 2023	17,095	4,197	34,173	6,070	1,103	62,638

Movement in carrying amounts						
Balance at 30 June 2021	7,138	4,466	29,716	4,737	1,262	47,319
Additions	17,496	-	-	-	-	17,496
Transfer into/ (out of) capital WIP	(5,684)	109	947	4,231	397	-
Depreciation expense	-	(281)	(4,089)	(2,173)	(376)	(6,919)
Disposals/write-offs	-	-	(190)	(87)	(3)	(280)
Balance at 30 June 2022	18,950	4,294	26,384	6,708	1,280	57,616
Additions	11,478	-	-	-	-	11,478
Transfer of maintenance spares	-	-	953	-	-	953
Transfer into/ (out of) capital WIP	(13,306)	189	11,233	1,709	175	-
Depreciation expense	-	(286)	(4,397)	(2,347)	(352)	(7,382)
Disposals/write-offs	(27)	-	-	-	-	(27)
Balance at 30 June 2023	17,095	4,197	34,173	6,070	1,103	62,638

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 \$3.6 million for manufacturing equipment as at 30 June 2023 (2022: \$7.5 million).

Critical accounting estimates and judgement

Management's judgement is applied in determining whether any impairment is required on the property, plant and equipment. The impairment testing is performed at a Cash Generating Unit (CGU) level, being the Group itself, due to the unique nature of the business.

Refer to Note 3.5 for a detailed impairment assessment that was performed as of 30 June 2023.

3.4 Leases

Amounts recognised in the balance sheet

	2023 \$'000	2022 \$'000
Right-of-use assets		
Cost at start of year	9,863	9,626
Additions	577	237
Closing balance at end of year	10,440	9,863
Accumulated depreciation at start of year	(2,299)	(1,643)
Depreciation charge for the year	(695)	(656)
Closing balance at end of year	(2,994)	(2,299)
Carrying amount	7,446	7,564

Lease liabilities		
Current	645	579
Non-current	7,368	7,461
Total	8,013	8,040

Amounts recognised in the statement of profit or loss

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

	2023 \$'000	2022 \$'000
Depreciation charge of right of use assets	695	656
Interest expense	297	301
Expense relating to short-term leases (included in costs of goods sold and administrative expenses)	181	246

3.4.1 Information about leases and significant estimates

The Group has one lease for its manufacturing and head office facility in Waurm Ponds, Victoria. The lease agreement does 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.

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. The impairment testing is performed at a CGU level, being the Group itself, due to the unique nature of the business.

Refer to Note 3.5 for a detailed impairment assessment that was performed as of 30 June 2023.

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 12 months or less.

3.4.2 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.

The lease liability contract includes an annual CPI increase.

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 2023 was \$0.2m (2022:

\$0.2m).

3.5 Intangible assets	Development costs \$'000	Patents and trademarks \$'000	Total \$'000
Gross cost	15,750	1,354	17,104
Less accumulated amortisation	(2,247)	(493)	(2,740)
At 30 June 2022	13,503	861	14,364
Gross cost	20,442	1,537	21,979
Less accumulated amortisation	(4,623)	(582)	(5,205)
At 30 June 2023	15,819	955	16,774
Movement in carrying amounts			
Balance at 1 July 2021	8,890	859	9,749
Additions	5,920	86	6,006
Amortisation	(1,307)	(84)	(1,391)
Balance at 30 June 2022	13,503	861	14,364
Additions	4,692	183	4,875
Amortisation	(2,376)	(89)	(2,465)
Balance at 30 June 2023	15,819	955	16,774

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. The majority of development costs relate to the development of new carbon fibre wheel prototypes.

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 commences once the intangible asset is ready for use, and is calculated using a straight-line method to allocate the cost of intangible assets over their estimated useful lives (5-year period). The useful life is determined as the period over which the assets' future economic benefits are expected to be consumed by the Group.

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.

The amortisation of the intangible assets is included within Research and Development in the statements of profit or loss and other comprehensive income given the future economic benefits embodied in the intangible assets are associated to the overall future growth of the Group while it is in its pre-profitability phase.

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 if it meets the definition of an intangible asset as defined in AASB 138 Intangible Assets, and when the Group can demonstrate all of the following:

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

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

Internal development expenditure, including wheel prototypes, is capitalised if it meets the recognition criteria of AASB 138 Intangible Assets. This is considered a key judgement. The group regularly assesses the probable future cash flows supporting the capitalisation of development costs in accordance with the standard. The internal development expenditure is amortised beginning when the wheel prototype development is complete. Where the recognition criteria under AASB 138 are not met, the expenditures are recognised as an expense in the consolidated statements of profit or loss and other comprehensive income.

The Group has no indefinite life assets and therefore performs an impairment test when impairment indicators are identified and for intangible assets not yet available for use. The impairment testing is performed at a CGU level, being the Group itself, as it is not possible to estimate the recoverable amount of the individual asset.

In the financial year ended 30 June 2023, the share price of the Group continued to reduce significantly and was considered an indicator for impairment. The Group used a value-in-use (VIU) discounted cash flow model and calculated the recoverable amount of the CGU. Key estimates included in the future cash flow projections relate to revenue growth rates, direct and operating costs and capital expenditure, in addition to the terminal growth rate and discount rates noted below. Given the Group is still in its growth phase post its Australian initial public offering in 2019, the Group is not yet able to produce wheels profitably. The Group is driving the industrialization of its production processes and constructing its first Mega-line. Developed with the latest Industry 4.0 technology, the Mega-line will deliver improvements in production scale and economics that will enable the Group to deliver large volume programs to a broader cross-section of the market. The fully operational Mega-line, which is expected in 2025, together with the greater scale of the business are anticipated to reduce the direct cost per wheel from \$2,658 in FY23 to c. \$1,500 in the long term.

Considering the growth trajectory of the Group including the establishment of the Mega-line, a 5-year cash flow forecast was used with data sourced from internal budgets and long-term management forecasts. The cash flow model includes next year's budgeted results, with the remaining years based on growth projections with reference to key structural and market factors, utilizing past experience, external data and internal analysis. The key structural and market factors considered are in relation to the automotive new vehicle wheel market, the increase in carbon fibre wheel demand, the continued structural migration from alloy wheels to carbon wheels and GDP growth rates. Management also anticipates growth from market penetration, and continued evolution of products, and economies of scale achieved.

Management is satisfied the recoverable amount of assets exceed the carrying amount to update headroom of \$32.77m for revised cash flow forecast and therefore no impairment charge has been recognised during the year.

The following key assumptions were used in testing for impairment:

- Post-tax discount rate: 11.5%. The incremental borrowing rate used for the post-tax discount rate does not consider any element of default risk associated with the Company, which is not relevant in assessing the return expected from the assets.
- Terminal value growth rate beyond 5 years: 2.7%
- Compound annual growth rate wheel volume: 14.8%
- Direct Material costs reduce from \$1,306 per wheel in FY23 to \$832 in the terminal year
- Direct Labour costs reduce from \$1,324 per wheel in FY23 to \$589 in the terminal year

Sensitivity analysis

Included in the table below is a sensitivity analysis of the recoverable amount of the CGU and where applicable, the impairment charge considering reasonable change scenarios relating to key assumptions at 30 June 2023. Each of the sensitivities below assumes that a specific assumption moves in isolation, while all other assumptions are held constant. A change in one assumption could be accompanied by a change in another assumption, which may increase or decrease the net impact.

	Post-tax discount rate	Annual reduction in wheel volume	Terminal value growth rate	Annual increase in direct material costs	Annual increase in direct labour costs
	1%	(1%)	(5%)	5%	5%
Change in recoverable amount in \$m	(21.0)	(14.7)	(30.6)	(23.6)	(16.7)
Impairment charge	-	-	-	-	-

3.6 Payables

	2023 '\$000	2022 '\$000
Current		
Unsecured liabilities		
Trade payables	3,828	5,128
Accruals	10,836	3,746
Interest accrued	427	118
Other payables	383	510
Total	15,474	9,502

3.6.1 Information about payables

Trade and other payables 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.

3.6.2 Accruals

Accruals includes an amount of \$6.2 million of incurred transaction costs for the merger as referred to in note 1.1.

3.7 Deferred income

Deferred income relates to 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. None of the grants received in the past two years relate to grants linked solely to the purchase of specific plant and equipment. Grant receipts are therefore classified as operating cash flows in operating cash flow. The conditions attached to these grants will be fulfilled progressively over the period of the grant. For revenue recognition policy, refer to note 2.2.1.

In December 2022 the Company received \$9 million from the Federal Government for the Modern Manufacturing Initiative – Round 2 – Manufacturing Integration Stream – Recycling & Clean Energy Priority grant. As of 30 June 2023, no income has been recognised as the assets have yet to be completed and capitalized and the amount received was recognised as deferred income and presented in the operating cash flow.

In December 2022 the Company received \$4 million from the State of Victoria for the SOV grant, of which \$1 million was recognised as grant income in the consolidated statement of profit or loss as the amount is intended to cover the expenses already incurred to support the Group, which is shown in the operating cash flow. The milestones in regard to the remainder of this payment are scheduled to be achieved in future periods and therefore no income was recognised.

Government grants are classified either as cash flows from operating or investing activities depending on the nature of activity of which the grant is intended to compensate. Grants received in relation to the acquisition of assets are classified as cash flows from investing activities in the consolidated statement of cash flows, whereas grants received as compensation for expenses incurred in the daily operations of the business are classified as cashflows from operating activities.

Under the relevant grant agreements, the government has a right to require all or part of a grant to be repaid in certain circumstances. Due in part to Carbon Revolution's funding position following the execution of the MMI grant agreement, Carbon Revolution has been delayed from complying with the expenditure requirements and early milestones under the agreement. Carbon Revolution has previously reported its progress to the Government and the Company is seeking to update the activity budget and schedule and will request an extension of time to complete the project. There is a risk that the Government does not approve any revised budget or schedule and/or may not grant Carbon Revolution an extension of time to complete the project, which may result in Carbon Revolution being in breach of the agreement and a risk of the Government seeking to claw back funding provided to the Company. Management believe that it is not probable that the Government will claw back the funding provided to the Company.

Deferred income – government grants	2023 ‘\$000	2022 ‘\$000
Balance as at 1 July	6,239	5,842
Received during the year	13,000	3,202
Released to the statement of profit or loss	(2,085)	(2,805)
Balance as at 30 June	17,154	6,239
Current	1,919	1,028
Non-current	15,235	5,211
Total	17,154	6,239

3.8 Provisions	Employee benefits ‘\$000	Make good provision ‘\$000	Warranty claims ‘\$000	Transaction costs ‘\$000	Total ‘\$000
Current	2,666	-	1,495	-	4,161
Non-current	479	234	-	-	713
At 30 June 2022	3,145	234	1,495	-	4,874
Current	2,903	-	595	9,459	12,957
Non-current	531	247	1,065	-	1,843
At 30 June 2023	3,434	247	1,660	9,459	14,800

	Make good provision ‘\$000	Warranty claims ‘\$000	Total ‘\$000
Movement in carrying amounts			
Balance at 1 July 2021	218	1,159	1,377
Provided for during the year	16	336	352
Balance at 30 June 2022	234	1,495	1,729
Provided for during the year	13	165	178
Balance at 30 June 2023	247	1,660	1,907

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. Warranty claims made to date are immaterial.

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.

Transactions costs

As of 30 June 2023, all costs incurred for which services have been received relating to the successful closure of the transaction have been provided for and expensed through the consolidated statement of profit and loss. Of the total costs recognised, \$9.4 million relate to costs only payable on successful closure of the transaction for which services have been received as of 30 June 2023. These costs have been incurred and it is probable that the merger transaction will close and therefore the amounts will become payable.

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, restricted trust fund

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 Restricted trust fund

As part of the new debt program entered into in FY23 (refer Note 4.2), the Group was required to keep certain amount of the debt proceeds in a separate trust account to cover future interest and principal repayments. These funds are not at the Group's disposal and therefore has been classified as restricted trust fund. The amounts include a US\$5 million (AU\$7.5 million) equity cure reserve that is expected to be released to the Group in November 2023, should there be no cure of covenants taking place. The availability of the US\$5 million (AU\$7.5 million) in November 2023 is part of the Group's going concern plan. The funds are held within a trust account with interest receivable on the amounts. Restricted trust fund also includes an amount for \$0.4 million as required as per the lease agreement for the manufacturing plant and office at Waurin Ponds, Victoria.

4.1.2 Notes to the consolidated statement of cash flow

For information on cash flows relating to financing activity see note 4.1.3.

Reconciliation of profit for the period to cash flows from operating activities	2023 \$'000	2022 \$'000
Loss after income tax	(79,223)	(47,821)
<i>Non-cash items from ordinary activities</i>		
Depreciation and amortisation	10,543	8,966
Share based payment expenses	3,091	3,167
Loss/ (Profit) on sale of plant and equipment	2	-
Movement in inventory provision	(1,656)	(4,216)

Write off of property, plant and equipment	-	280
Financing activity in prior financial year	-	(422)
Other		
Borrowing costs	(20,676)	-
Changes in assets and liabilities		
(Increase)/decrease in assets:		
- Receivables	8,053	(8,240)
- Contract assets	(2,330)	-
- Inventories	(1,306)	2,231
- Other assets	1,209	(533)
Increase/(decrease) in liabilities:		
- Payables	7,247	(1,174)
- Contract liabilities	1,722	781
- Deferred income	10,915	397
- Provisions	9,927	608
Cash used in operating activities	(52,482)	(45,976)

4.1.3 Notes to the consolidated statement of cash flow

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

2023	Note	Non-cash changes					30 June 2023
		1 July 2022	Financing cash	New	Other changes	Interest	
		\$'000	flows (i)	leases	(ii)	paid	\$'000
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current borrowings at amortised costs							
Secured							
Working capital facility	4.2	6,843	(6,843)	-	320	(320)	-
Term loan	4.2	2,889	(2,889)	-	830	(830)	-
Letter of credit facility	4.2	4,000	(4,000)	-	64	(64)	-
Unsecured							

Term loan with customer	4.2		4,523	-	111	(111)	4,523
Supplier financing arrangement	4.2	4,954	4,352	-	446	(446)	9,306
Non-current borrowings at amortised cost							
Secured							
Term loan	4.2	4,333	(4,333)	-	-	-	-
Term loan (USD)(iii)	4.2	-	70,625	-	2,194	(1,626)	70,833
Lease liabilities	3.4	8,040	(604)	577	297	(297)	8,013
Total		31,059	60,471	577	4,262	(3,694)	92,675

(i) The cash flows from borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the cash flow statement.

(ii) Other changes include interest accruals and foreign exchange movements.

(iii) Amount is net of \$20.7m loan establishment cost presented within operating cash flows. Refer to Note 4.2

2022

Non cash changes

	Note	1 July 2021 \$'000	Financing cash flows (i) \$'000	New leases \$'000	Other changes (ii) \$'000	Interest paid \$'000	30 June 2022 \$'000
Current borrowings at amortised costs							
Secured							
Working capital facility	4.2	5,525	1,318	-	324	(324)	6,843
Term loan	4.2	4,333	(1,444)	-	552	(552)	2,889
Letter of credit facility	4.2	-	4,000	-	-	-	4,000
Unsecured							
Supplier financing arrangement	4.2	2,375	2,579	-	213	(213)	4,954
Non-current borrowings at amortised cost							
Secured							
Term loan	4.2	6,529	(2,196)	-	-	-	4,333
Lease liabilities	3.4	8,355	(552)	237	301	(301)	8,040
Total		27,117	3,705	237	1,390	(1,390)	31,059

(i) The cash flows from borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the cash flow statement.

(ii) Other changes include interest accruals and foreign exchange movements.

(iii) Amount is net of \$20.7m loan establishment cost presented within operating cash flows. Refer to Note 4.2

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.

Current borrowings at amortised cost	Interest rate %	Maturity	2023 \$'000	2022 \$'000
Secured				
Working capital facility	7.44%	May 2023	-	6,843
Term loan	6.15%	May 2023	-	2,889
Letter of credit facility	6.45%	May 2023	-	4,000
			-	13,732
Unsecured				
Term loan with customer	10.0%	June 2024	4,523	-
Supplier finance arrangement	6% + RBA cash rate		9,306	4,954

			13,829	18,686
Non-current borrowings at amortised cost				
<i>Secured</i>				
Term loan	6.15%	December 2024	-	4,333
Term loan (USD)	8.50%	May 2027	70,833	-
			70,833	4,333

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.

Working capital facility

In 2021 the Group entered a working capital facility of \$7.5 million that provides the opportunity to factor receivables, which was repaid when entering the new term loan (USD) in May 2023. The credit risk was with the Group, resulting in the recognition of the full carrying amount of the receivables and the cash received in short term borrowings. The facility had a variable interest rate based on underlying market rates. The interest rate as of 30 June 2022 was 7.44%.

Term loan

In 2021 the Group entered a term loan arrangement for \$13.0 million. In 2022 the Group reached an agreement to extend this loan until December 2024 reducing the amounts payable each quarter to \$0.7 million. The Group has fully repaid the term loan when entering the new term loan (USD) in May 2023. The facility had a variable interest rate based on a fixed component and BBSY. The interest rate as of 30 June 2022 was 6.15%.

Letter of credit facility

In 2022 the Group entered a revolving facility arrangement for \$8.0 million. As at 30 June 2022 the Group had drawn down \$4.0 million against this facility, which was repaid in May 2023 when the Group entered the new term loan (USD). The facility had a variable interest rate based on a fixed component and BBSY. The interest rate as of 30 June 2022 was 6.45%.

Term loan with customer

In 2023 the Group entered a loan arrangement for \$4.5 million with one of its customers as part of its bridge financing activities. The loan is repayable in three tranches including interest with the first repayment in December 2023 and the final repayment in June 2024. The amount repayable is \$1.66 million each time, resulting in an interest rate of 10%.

Supplier finance arrangement

In 2021 the Group entered into a supply chain finance agreement with a logistics company. Under the arrangement the logistics company agrees to pay amounts to the participating supplier in respect of invoices owed by the Group and receives settlement from the Group at a later date. The principal purpose of this arrangement is to facilitate efficient ordering, importation, warehousing, invoice management and payment processing. The arrangement is only for a limited number of suppliers and specific materials. As the arrangement results in extended payment terms beyond the terms agreed with those suppliers the agreement is disclosed as a current borrowing. The facility has a fixed interest rate of 6% + RBA cash rate from 28 June 2023 onwards.

Term loan (USD)

In May 2023 the Group entered into a new debt program, a term loan of U.S Dollar \$60 million (AUD 90.1 million) at an interest rate of 8.5% and an effective interest rate of 21.2%. The loan is denominated in U.S Dollar and is translated to Australian dollars at each reporting period. Principal repayments commence in December 2024, with monthly principal repayments of US\$2 million. The program includes certain reserves in an amount of \$14.3 million, that are not currently available at the Company's discretion and disclosed as restricted trust fund (refer to Note 4.1.1). Costs of \$20.7 million incurred in regard to the establishment of the term loan have been netted off with the loan amount and are being amortised over the term of the loan through the Effective Interest Rate method.

The New Debt Program contains four financial covenants, which Carbon Revolution is required to meet:

- agreed thresholds for revenue, assessed monthly on a rolling trailing six month basis with specific agreed targets for

- each testing period, with the first testing period being the 6 months expiring June 30, 2023;
- agreed thresholds for EBITDA, assessed monthly on a rolling trailing six month basis with specific agreed targets for each testing period, with the first testing period being the 6 months expiring June 30, 2023;
- maximum capital expenditure (capex) limits, assessed monthly and initially assessed on a rolling trailing six month basis with specific agreed maximum capex for each testing period with the first testing period being the 6 months expiring June 30, 2023, and moving to a rolling trailing 12 month basis in January 2024; and
- liquidity ratios based on remaining months of liquidity (assessed monthly based on the monthly Adjusted EBITDA for the 3 most recent months) until the Adjusted EBITDA of the Group becomes positive, following which the measure will be based on a current ratio.

Subject to the cure right available for the revenue and EBITDA covenants described below, a breach of a financial covenant which is not cured, entitles the Servicer to accelerate payment of the principal and interest owed under the notes, and enables enforcement of the security provided in connection with the New Debt Program. The New Debt Program is secured by all of the present and after-acquired property of the Carbon Revolution Group, except for certain excluded property and certain excluded intellectual property.

The revenue and EBITDA covenants are subject to cure provisions. In the event of revenue or EBITDA performance falling below the covenanted threshold amount, Carbon Revolution is permitted to make a payment equal to or greater than the shortfall, which will also reduce the principal balance owed on the New Debt Program. The amount of the payment would be added as a permanent adjustment to the revenue for the relevant 6 month testing period. This cure right can be used up to five times over the course of the New Debt Program but a maximum of twice in any four-month period.

If Carbon Revolution is not able to meet its financial covenants (including through exercise of any cure rights available to cure such breach), the Servicer may exercise its rights under the program documents, including accelerating payment of the principal and interest owing, enforcing upon the security, taking legal action, and commencing liquidation proceedings, any or all of which would have a material adverse effect on Carbon Revolution, its business, financial condition and its creditors, as well as the value of its shares.

In addition to the financial covenants described above, the New Debt Program contains a number of other positive and negative covenants and obligations binding on the Carbon Revolution Group.

If Carbon Revolution or MergeCo does not complete a US\$60 million (A\$90.3 million) Qualified Capital Raise (as defined in the New Debt Program documentation), including the issuance of equity or subordinated debt that does not require certain payments until at least 180 days after the repayment of the New Debt Program, by December 31, 2023, then an additional 5% of the debt amount (US\$3 million (A\$4.3 million)) would be required to be paid between January 1, 2024 and the maturity of the New Debt Program. If Carbon Revolution or MergeCo does not complete a US\$45 million (A\$64.3 million) Qualified Capital Raise, an additional 5% (being 10% in total and inclusive of the requirement in the preceding sentence) of the debt amount (being US\$6 million (A\$8.6 million) in total, inclusive of the requirement in the preceding sentence) is to be paid over the life of the debt program. The additional fee of US\$0.15 million per month (being US\$6 million divided by 41 months) resulting from not undertaking a Qualified Capital Raise of US\$45 million or more is the "PLUS Additional Monthly Fee" and would be payable from January 1, 2024. Drawdowns under the Committed Equity Financing do not qualify as a Qualified Capital Raise.

The program documents also provide that the failure to complete the Business Combination by August 31, 2023 would be a breach of the relevant covenant, giving rise to an event of default, subject to a 60-day cure period ending on October 30, 2023 and contains other customary events of default, including (amongst other things):

- failure to make a payment due under the agreement by the due date;
- existence of circumstances which could result in a Material Adverse Effect;
- a change in control of the Carbon Revolution Group (prior to the Business Combination);
- events of insolvency, judgement debt, asset seizure and impairment of security;
- material misrepresentation; and
- if any portion of the guaranty ceases to be in full force and effect.

An Event of Default entitles the Servicer to exercise its rights under the program documents, including accelerating payment of the principal and interest owing, enforcing upon the security, taking legal action, and commencing liquidation proceedings, any or all of which would have a material adverse effect on Carbon Revolution, its business, financial condition and its creditors, as well as the value of its shares.

As outlined in the Going Concern note the Group has forecast breaches to its debt service reserve and minimum cash requirement at 30 September 2023 under its USD term loan. The Group has received confirmation from the lender agreeing to waive these covenants for September and October 2023, with the tests resuming in November 2023. As of the date of issuance these financial statements, the lender is in the process of preparing an amendment to formally document the waiver.

Subsequently terms of this program have been amended as outlined in note 6.10 Subsequent event.

Critical accounting estimates and judgements

Debt issuance costs are included in the EIR calculation if it is directly attributable to the issuance of the debt. This is considered a key judgement. In obtaining the USD term loan, the Group paid \$20.6 million of initial costs which have been included in the EIR. Management determined that these costs are directly incremental to the issuance of the USD term loan.

The additional amounts that become payable if the Qualified Capital Raise is not completed have not been included in the Effective Interest Rate calculation as management projects to be able to complete the Qualified Capital Raise. This is considered a key judgement.

Finance costs

Finance costs can include interest expense, finance charges in respect of finance leases, amortisation of discounts or premiums and ancillary costs relating to finance.

Finance costs are expensed in the period in which they are incurred

Refer to note 2.4 for more information.

4.3 Financial risk management

The Group is exposed to foreign 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 US\$ denominated term loan (refer Note 4.2) and its operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency). The business has awarded wheel programs with sales denominated in US\$ in development which are scheduled to commence production in the second half of calendar year 2024. USD inflows from these new program sales are expected provide some offset against USD outflows related to the Group's USD denominated loan.

57% (38% in FY22) of the Group's revenues and 34% (18.5% in FY22) of costs are denominated in currencies other than AUD. The Group has material exposure to foreign currency for movements in the exchange rate. The primary currencies the Group has exposure to are U.S. Dollars and Euros.

The Group's exposure to foreign currency risk in relation to non-derivative financial instruments at 30 June 2023 was as follows, based upon notional amounts

	EUR '000	US \$'000
2023		
Cash and cash equivalent	632	7,422
Restricted trust fund	-	9,456
Trade receivables	2,409	400
Trade payables	(419)	(813)
Supplier finance arrangement	(4,709)	(414)
Borrowing	-	(46,320)
Balance sheet exposure	(2,087)	(30,269)
2022		
Trade receivables	5,650	-
Trade payables	(343)	(233)
Supplier finance arrangement	(3,253)	(13)
Balance sheet exposure	2,054	(246)
The aggregate net foreign exchange gains/losses recognised in profit or loss were:		
Net foreign exchange gain/(loss) included in other income/administration expense	(305)	448

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 U.S. dollar denominated financial instruments.

The below table discloses the impact of the AUD strengthened and weakened by 5% from base rates of EUR 0.6183 and USD 0.6619.

	2023 \$'000	2022 \$'000
+/- 5% exchange rate		
Impact on profit after tax	1,618	90
Impact on equity	(1,618)	(90)

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 does not currently hedge its exposure to interest rate fluctuations due to the low level of exposure.

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

	Variable interest rate		Fixed interest rate		Total	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Financial assets						
Cash	19,582	22,301	-	-	19,582	22,301
Restricted trust fund	14,285	-	-	-	14,285	-
Short term deposits	-	-	392	392	392	392
Total financial assets	33,867	22,301	392	392	34,259	22,693
Financial liabilities						
Working capital facility	-	6,843	-	-	-	6,843
Term loan	-	-	4,523	-	4,523	-
Supplier finance arrangement	9,306	-	-	4,954	9,306	4,954
Letter of credit facility	-	4,000	-	-	-	4,000
Term loan	-	7,222	-	-	-	7,222
Term loan (USD)	-	-	90,645	-	90,645	-
Total financial liabilities	9,306	18,065	95,168	4,954	104,474	23,019

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 contract assets) and from its financing activities, including deposits with banks and financial institutions.

Cash and cash equivalents

The Group held cash and cash equivalents of \$19.6 million at 30 June 2023 (2022: \$22.7 million) plus restricted trust fund of \$14.7 million at 30 June 2023 (2022: \$nil). 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 and the United States of America. 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 (2022: \$0.4 million) on deposit as collateral for lease and banking facility obligations which is classified as restricted trust fund.

Receivables and contract assets

The Group held receivables of \$6.4 million at 30 June 2023 (\$14.5 million at 30 June 2022) and contract assets of \$8.2 million at 30 June 2023 (\$5.9 million at 30 June 2022). The assessment of customer credit risk is straightforward as a result of the concentrated nature of receivables with only a few customers and a simplified approach has been taken. Depending on the customer, the Group's credit terms vary between 30 and 100 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.

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 cash and borrowing facilities are maintained. Refer to 1.3 Going Concern for the Group's assessment of preparing these accounts on a going concern basis.

Maturity analysis

The table below represents the estimated and undiscounted contractual settlement terms for financial liabilities. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	On demand \$'000	< 3 months \$'000	3-12 months \$'000	1-5 years \$'000	> 5 years \$'000	Total \$'000
2023						
Supplier finance arrangement	9,306	-	-	-	-	9,306
Term loan	-	-	4,523	-	-	4,523
Lease liabilities	-	158	487	2,830	4,538	8,013
Term loan (USD)	-	-	-	90,645	-	90,645
Total	9,306	158	5,010	93,475	4,538	112,487
2022						
Working capital facility	-	6,843	-	-	-	6,843
Supplier finance arrangement	4,954	-	-	-	-	4,954
Letter of credit facility	-	-	4,000	-	-	4,000
Term loan	-	-	2,889	4,333	-	7,222
Lease liabilities	-	95	483	2,541	4,921	8,040
Total	4,954	6,938	7,372	6,874	4,921	31,059

4.3.4 Fair value risk

The fair value of financial assets and financial liabilities not measured at fair value, except for the USD term loan, approximates their carrying amounts as disclosed in the statement of financial position and notes to the financial statements.

As at 30 June 2023 the USD term loan is impacted by fair value risk (2022: Nil).

4.4 Contributed equity

	30 June 2023 # Ordinary shares	30 June 2022 # Ordinary shares	30 June 2023 \$'000	30 June 2022 \$'000
Ordinary shares – fully paid	211,877,653	206,326,138	386,432	383,822
Ordinary shares – restricted	274,852	527,889	-	-

Total share capital	212,152,505	206,854,027	386,432	383,822
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Movements in ordinary share capital

2022	Date	Number of shares	Issue price	\$'000
Balance	1 July 2021	205,421,449		381,890
Shares issued under Employee Share Plan		904,689		1,932
Balance of fully paid shares	30 June 2022	206,326,138		383,822
2023	Date	Number of shares	Issue price	\$'000
Balance	1 July 2022	206,326,138		383,822
Shares issued under Employee Share Plan		5,551,515		2,610
Balance of fully paid shares	30 June 2023	211,877,653		386,432

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.

During the financial year ended 30 June 2023, the Company did not pay a dividend (2022: \$nil).

4.5 Share-based payment plan 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:

- Elapse of three years from the date of grant; or
- 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. For the purpose of the earnings per share calculation these shares are included in basic earnings per share either when the employee terminates or at the end of the 3 years.

The TESP was not granted in FY23 due to pending merger transaction (refer Note 1.1).

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

	2023	2022
Grant date	-	Dec 2021
Number of employees granted shares	-	266
Value of shares granted per employee (on FTE and length of service pro-rata basis)	-	\$279-\$1,000
Total number of shares	-	255,281
Fair value at grant date	-	\$1.01

Short term incentive plan

The employee short term incentive (“STI”) plan was approved in November 2021. 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 2023 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.

298,594 rights were granted on 13 December 2022 valued at \$76,500 (2022: 162,833 rights valued at \$192,833). These rights will vest 12 months from the date of granting. No rights were forfeited, exercised or expired during the year. 4,858,487 rights were granted on 13 December 2022 valued at \$1,220,594 (2022: 530,526 rights valued at \$648,771). These rights automatically vest on granting. Of these rights 4,748,646 were exercised during the year and no shares were forfeited or expired.

343,422 rights were granted on 14 April 2023 valued at \$87,985 (2022: \$nil). These rights automatically vest on granting. Of these rights 343,422 were exercised during the year and no shares were forfeited or expired.

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.

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
- Exercise price \$2.60 (IPO price)
- Vesting date – 23 December 2022
- Term of 5 years (exercise window from 23 December 2022 to 23 December 2024)

The options were valued at \$3,241,000. This cost is being amortised over the three-year vesting period. No options were forfeited during the year.

FY21 LTI Award

The FY21 LTI Award was to deliver a one-off equity award to a number of senior executives. These performance rights

entitle the participant to acquire shares at nil cost on vesting, subject to the meeting of the vesting conditions. 778,050 performance rights were granted on 12th November 2020. The performance period commenced on 21 September 2020 and ends on 20 September 2023.

The performance rights were valued at \$1,507,894. The cost is being amortised over the three-year vesting period. 30,203 rights were forfeited during the year.

NED fee sacrifice

The Non-executive director fee sacrifice plan was added in FY2021 as a way to promote further employee ownership. The offer to the NEDs was made on 11 September 2020 and the rights were granted on 12th November 2020. These rights vested on 26th February 2021 and were issued on the same date.

107,518 rights were issued under this scheme in FY2021.

Salary restructure scheme

The Salary restructure scheme was added in FY2021. The offer to the eligible employees was made on 29 September 2020 and the rights were granted on 29 October 2020 for all employees excluding the CEO which was made on 12 November 2020 following annual general meeting (AGM). The offer was valid in relation to an employee's salary between the 12 October and the 20 June 2021 and includes an offer of matched rights to the maximum value of \$2,500 per employee.

In total 80 employees took up the offer to restructure their salary and a total number of 351,569 rights were granted under the scheme. Base rights vested on a pro-rata basis over the period in equal monthly instalments on the last day of each month (such that base rights were fully vested by 30 June 2021). The matched rights vested in full on 30 June 2021. Vested rights may be exercised by the employee with the exercise period commencing when the rights vest and ending on the expiry date. The expiry date is the 10-year anniversary of the grant date.

FY22 LTI Award

The FY22 LTI Award was to deliver a one-off equity award to a number of senior executives and selected senior employees. These performance options entitle the participant to acquire shares at an exercise price of \$1.60 on vesting, subject to the meeting of the vesting conditions.

6,668,360 performance options were granted on 20 December 2021. The performance period commenced on 21 September 2021 and ends on 20 September 2024.

Terms of the options are:

- Issue date 20 December 2021
- Exercise price \$1.60
- Vesting date – 28 October 2024
- Term of 5 years (exercise window from 28 October 2024 to 28 October 2026)

The performance rights were valued at \$416,772. The cost is being amortised over the three-year vesting period. 364,459 options were forfeited during the year.

4.6 Reserves

	2023 \$ '000	2022 \$ '000
Share-based payments	7,695	7,214
Share buyback	(311)	(311)
Foreign currency translation	(218)	(156)
Total	7,166	6,747

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.

4.7 Transaction costs	2023	2022
	\$'000	\$'000
Transaction costs recognised in the profit and loss statement	24,746	-
Transaction costs recognised in trade payables	541	-
Transaction costs recognised in accruals	5,716	-
Transaction costs recognised in provisions	9,459	-
Transaction costs recognised in the operating cash flow	9,030	-

On 30 November 2022 the Company and Twin Ridge Capital Acquisition Corp, a special purpose acquisition company listed on the NASDAQ (the "SPAC"), announced they have entered into a binding Business combination agreement ("BCA") and accompanying scheme implementation deed ("SID") pursuant to which a Irish company Carbon Revolution Public Limited Company (formerly known as Poppetell Limited) ("MergeCo") will acquire both CR (via a scheme of arrangement ("Scheme")) and the SPAC (via the BCA) ("Transaction"). Upon closing of the Transaction, the ordinary shares and warrants of MergeCo are expected to trade on the NASDAQ, and CR shares shall cease to be quoted on the Australian Stock Exchange.

As of 30 June 2023, all costs relating to the successful closure of the transaction have been provided for and expensed through the consolidated statement of profit or loss. Of the total costs recognised, \$12.9 million relate to costs only due and payable on transaction closure and \$2.9 million are due for payment before closure.

Critical accounting estimates and judgements

The Group recognised \$24.7 million of transaction costs in the current year. In recognising the transaction costs, management considered the requirements under AASB 137 Provisions, contingent liabilities and contingent assets. As management determined that it is probable that the transaction will close, success fees for services incurred that are payable upon transaction closure have been provided for. This is considered a key judgement.

5 Taxes

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 liabilities assets have been recognised only to the extent of deferred tax liabilities, and offset against deferred tax assets have been offset against up to the extent of the total value of the deferred tax liability liabilities as referred to in note 5.3.

5.1 Income tax expense

The major components of income tax expense are:	2023	2022
	\$'000	\$'000
Consolidated statements of profit or loss	-	-
Current income tax charge/benefit	-	-
Adjustment for current tax relating to prior periods	-	-
Deferred income tax relating to the origination and reversal of temporary differences	-	-
Total	-	-

The prima facie tax benefit on loss before tax differs from the income tax expense as follows:	2023	2022
	\$'000	\$'000
Accounting loss before tax	(79,223)	(47,821)
Benefit at the Australian statutory income tax rate of 30% (2022: 30%)	23,767	14,346
Tax impact of:	-	-
Non-deductible expenses	(4,859)	(5,083)
Non-assessable income	-	-
Impact of different tax rates in foreign jurisdictions	29	54
Current year taxable loss not recognised	(18,937)	(9,317)
Income tax benefit	-	-

5.2 Deferred taxes

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 wherein 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, or and unused tax losses can be utilised, except whenre 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.

5.2.1 Research and development tax credits

The Company is entitled to claim tax offsets for investments in qualifying expenditure under the Research and Development Tax Incentive regime in Australia. The group accounts for these allowances as tax credits, which at present are being carried forward and which may reduce income tax payable and current tax expense in future years. A deferred tax asset, subject to accounting recognition criteria is available to be recognised for unclaimed tax credits that are carried forward as deferred tax assets. At 30 June 2023 no deferred tax asset has been recognised, see note 5.4.

5.3 Recognised deferred tax assets and liabilities in statement of financial position

Deferred income tax at 30 June 2023 relates to the following

	2023	2022
	\$'000	\$'000
Deferred tax liabilities relating to temporary differences:		
Receivables	-	(25)
Intangible assets	(4,746)	(4,050)
Property, plant and equipment	(12,841)	(6,551)
Total	(17,587)	(10,626)
Deferred tax assets related to temporary differences:		
Provisions and accruals	6,981	3,785
Capital raising costs	7,833	1,960

Tax losses	2,682	-
Other	91	89
Total	17,587	5,834
Net deferred tax liability	-	(4,792)
Less: temporary differences not recognised	-	4,792
Net deferred tax recognised in the statement of financial position	-	-

Deferred tax assets have been recognised only to the extent of deferred tax liabilities as described in accounting judgements and estimates at note 5.5.

Temporary differences arise in relation to capital raising costs for which the Company claims a tax deduction on a straight-line basis over a 5-year period in accordance with Australian tax law.

5.4 Carry forward unrecognised tax losses and R&D tax credits

The Group had income tax losses of \$172.8 million and R&D tax credits of \$28.0 million at year end (2022: income tax losses \$129.1 million and R&D tax credits \$23.0 million). These tax losses and R&D tax credits are currently considered probable of realisation only to the extent of any net deferred tax liability remaining after offset of other deferred tax assets. A deferred tax asset of \$2.7 million has been recognised in relation to these tax losses and R&D tax credits at year end (2022: \$4.8 million), for which no deferred tax asset is recognised on the statement of financial position as they are currently not considered probable of realisation. The income tax losses and R&D tax credits have no expiry date and are available indefinitely for offset against future assessable income subject to the Group continuing to meet relevant statutory tests.

Critical accounting estimates and judgements

Deferred tax assets are recognised for deductible temporary differences, carry forward unused tax credits, and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax credits, or unused tax 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. The deferred tax asset has been recognised up only to the amount extent of available taxable temporary differences.

Refer to 5.4 for details regarding unrecognised deferred tax assets.

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	
			2023	2022
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

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 other. 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 2023:

	2023 \$'000	2022 \$'000
Sale of wheels	37,477	38,276
Engineering services	530	464
Sale of tooling	253	1,596
Revenue	38,260	40,336
Cost of goods sold	(55,094)	(57,445)
Gross margin	(16,834)	(17,109)
Other income	2,953	4,170
Operational expenses	(2,993)	(2,009)
Research and development expenses	(16,180)	(16,933)
Administrative expenses	(14,824)	(13,242)
Marketing expenses	(1,478)	(1,518)
Capital raising transaction costs	(24,746)	-
Finance costs	(5,502)	(1,390)
Loss before income tax expense	(79,604)	(48,031)
Income tax expense	-	-
Loss for the year after income tax	(79,604)	(48,031)
Other comprehensive income	-	-
Total comprehensive loss for the year, net of tax	(79,604)	(48,031)

Refer below for the statement of financial position for the parties to the deed of cross guarantee as at 30 June 2023:

	2023 \$'000	2022 \$'000
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Current assets		
Cash and cash equivalents	19,278	22,594
Restricted trust fund	14,677	-
Receivables	6,283	14,397
Contract assets	8,239	5,909
Inventories	22,046	20,042
Other current assets	378	1,587
Total current assets	70,901	64,529
Non-current assets		
Property, plant and equipment	62,638	57,616
Right of use asset	7,446	7,564
Intangible assets	16,774	14,364
Total non-current assets	86,858	79,544
Total assets	157,759	144,073
Current liabilities		
Payables	15,521	9,502
Borrowings	13,829	18,686
Lease liability	645	579
Contract liability	748	458
Deferred income	1,919	1,028
Provisions	12,957	4,161
Total current liabilities	45,619	34,414
Non-current liabilities		
Borrowings	70,833	4,333
Lease liability	7,368	7,461
Contract liability	1,755	323
Deferred income	15,235	5,211
Provisions	1,843	713
Total non-current liabilities	97,034	18,041
Total liabilities	142,653	52,455
Net assets	15,106	91,618
Equity		
Contributed equity	386,432	383,822
Reserves	7,376	6,894
Accumulated losses	(378,703)	(299,098)
Total equity/ (deficiency in equity)	15,106	91,618

6.3 Directors and Key management personnel	2023 \$'000	2022 \$'000
Compensation by category		
Short-term employment benefits	2,211,445	2,195,825
Post-employment benefits	99,352	96,132

6.4 Transactions with related parties

There were no transactions with related parties in 2023 with other related parties, other than the key management personnel in 6.3 above.

6.5 Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2023 the parent entity of the Group was Carbon Revolution Limited. The parent entity applied the same accounting policies as the Group.

	2023 \$'000	2022 \$'000
Results of parent entity		
Loss for the year	95,919	48,445
Other comprehensive loss	-	-
Total comprehensive loss for the year	95,919	48,445
Financial position for the parent entity at year end		
Current assets	2,565	14,253
Total assets	20,616	106,550
Current liabilities	(22,326)	(12,545)
Total liabilities	(22,326)	(15,433)
Total equity of the parent company comprising of	(14,824)	(13,242)
Contributed equity	386,432	383,822
Reserves	7,384	6,903
Accumulated losses	(395,527)	(299,608)
Total equity/ (deficiency in equity)	(1,710)	91,117

6.6 Auditor's remuneration

The auditor of the Group for the year ended 30 June 2023 is Deloitte Touche Tohmatsu (30 June 2022: Deloitte Touche Tohmatsu).

	2023 \$'000	2022 \$'000
Audit Services		
Audit and review of the financial report	760,000	152,500
Reaudit of FY21 and FY22 under PCAOB standards for the proposed merger transaction	965,000	-
	1,725,000	152,500

6.7 Unrecognised items

6.7.1 Guarantees

The Group has entered into property lease rental guarantees with a face value of \$391,763 (30 June 2022: \$391,763).

The Group has agreed to be responsible, on certain terms, for the reasonable costs incurred by SPAC including its costs in complying with and consummating the Scheme Implementation Deed and Business Combination Agreement entered into with Carbon Revolution, if and when SPAC (disregarding any funds contained in the SPAC trust account) no longer has sufficient funds to pay such expenses.

6.7.2 Capital commitments

The Group has capital commitments for manufacturing equipment as at 30 June 2023 totalling \$3.6 million (30 June

2022: \$7.5 million).

The group has transaction costs commitments relating to the SPAC of \$11.9 million on successful completion of the transaction relating to the SPAC. This commitment relates to transaction costs incurred by Twin Ridge which are payable upon the transaction closing, and are payable by the Company if sufficient cash is not available from Twin Ridge as a result of Twin Ridge shareholders redeeming their shares.

6.7.3 Contingent liabilities

Other than the government grant noted in Note 3.7, the Group has no contingent liabilities as at 30 June 2023 (30 June 2022: nil).

6.8 Changes in accounting policies

There were no changes in accounting policies during the financial year.

6.9 Adoption of new and revised Australian Accounting Standards

6.9.1 New and amended Australian Accounting Standards that are effective for the current year

The Group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 July 2022.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments

There was no material impact upon adoption of the new and revised Standards and amendments on the Group's consolidated financial statements.

6.9.2 New and revised Australian Accounting standards and interpretations on issue but not yet effective

At the date of authorisation of the financial statements, the Group has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

Standard and Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current, AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date and AASB 2022-6 Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants	1 January 2024	30 June 2025
AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023	30 June 2024
AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	30 June 2024
AASB 2022-5 Amendments to Australian Accounting Standards – Lease Liability in a Sale and Leaseback	1 January 2024	30 June 2025
AASB 2022-7 Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards	1 January 2023	30 June 2024

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. The Directors expect to apply these standards from the effective dates.

6.10 Subsequent events

Structured Equity Facility

Carbon Revolution announced on 22 September 2023 that MergeCo has entered into a securities purchase agreement (Securities Purchase Agreement) and other documents with OIC Structured Equity Fund I Range, LLC and OIC Structured Equity Fund I GPFA Range, LLC (fund vehicles affiliated with OIC) (SEF Documents), under which, subject to satisfaction or waiver of a number of conditions (including Implementation), MergeCo will issue Class A Preferred Shares in MergeCo (Preferred Shares) and a warrant (SEF Warrant) to OIC in exchange for initial gross proceeds of US\$35 million (\$54.7 million), with further proceeds to be available in tranches, comprising of up to US\$35 (\$54.7 million) million that will be deposited by OIC in an escrow account, which funds are subject to release upon satisfaction of further conditions and up to a further US\$40 million (\$62.5 million) in aggregate proceeds upon satisfaction of further conditions to be used for the development, construction, and/or retooling of future manufacturing facilities (Structured Equity Facility). The Preferred Shares will result in OIC being provided with substantial positive and negative control rights in respect of MergeCo, and the SEF Warrant will entitle OIC to be issued up to 19.99% of the MergeCo Shares on issue on Implementation on a fully diluted basis.

Under the Structured Equity Facility:

- Subject to satisfaction of certain conditions precedent, MergeCo will issue US\$35 million of Preferred Shares to OIC (Initial Tranche) and receive US\$35 million in aggregate gross proceeds, less amounts applied to cover certain transaction costs and an initial structuring premium payable to an entity associated with OIC of US\$1.75 million (Initial Structuring Premium). Completion of the Initial Tranche will occur within 15 business days after satisfaction of the relevant conditions precedent (Initial Closing), which includes, amongst other conditions, Implementation of the Transaction.
- Subject to the same conditions as the Initial Tranche, US\$35 million will be deposited into an escrow account controlled by OIC (Reserve Funds).
- Subject to and on the satisfaction of further conditions (see below), MergeCo will issue US\$5 million of Preferred Shares to OIC and receive US\$5 million in funding from the Reserve Funds if, prior to the Second Reserve Release (as defined below), MergeCo receives aggregate gross proceeds of at least US\$10 million from one or more issuances and sales of MergeCo Shares to one or more third party persons (other than OIC and its affiliates) (First Reserve Release).
- Subject to and on the satisfaction of further conditions by 1 December 2024, or if MergeCo continues to work in good faith to satisfy the relevant condition, 31 January 2025, MergeCo will issue Preferred Shares to OIC equal in amount to the remaining Reserve Funds plus accrued interest and receive the remaining Reserve Funds (Second Reserve Release).
- In the 24 months following the Initial Closing, MergeCo will, to the extent additional financing is necessary for the development, construction and/or tooling associated with any future manufacturing facility or for material upgrades to Carbon Revolution's existing Mega-line plant operations in Australia (Plant Investments), have the right, subject to meeting certain conditions described below, to request that OIC subscribe for up to US\$40 million of further Preferred Shares less a 2% subsequent structuring premium (Subsequent Financing). Completion of any such Subsequent Financing is subject to approval by OIC's investment committee.

The proceeds received from the issuance of Preferred Shares under the Structured Equity Facility must generally be used consistent with a budget agreed between MergeCo and OIC. In connection with the Structured Equity Facility, an affiliate of OIC will receive a 'monitoring fee' of US\$80,000 per year for so long as the Preferred Shares remain on issue.

Preferred Shares

Under the terms of the Preferred Shares, each Preferred Share:

- has a term of up to five years from the Initial Closing and may be redeemed earlier at the election of MergeCo;
- is entitled to a fixed rate of dividend of 12% per annum, which accrues daily and is payable quarterly in cash or in kind by the issue of additional Preferred Shares at MergeCo's election;
- is expected to be accounted for as borrowings.

SEF Warrants

Under the Structured Equity Facility, OIC will be issued a warrant to purchase MergeCo Shares at an exercise price of US\$0.01 per MergeCo Share (adjusted from time to time in accordance with the terms of the Warrant) (SEF Warrant). The Warrant has a term of seven years from the Initial Closing unless exercised earlier in accordance with its terms. The Warrant may be exercised for cash or may be exercised on a cashless basis.

Under the terms of the SEF Warrant, OIC will be entitled to subscribe for MergeCo Shares that equal up to 19.99%, which vest in tranches comprising:

- 12.49%, on and from the Initial Closing; plus
- 5%, following the issue of Preferred Shares to OIC in connection with the Second Reserve Release; plus
- 2.5%, subject to OIC not having failed to fund a Subsequent Financing upon the satisfaction of the relevant conditions by MergeCo, upon the earlier of:
 - completion of a Subsequent Financing; and
 - 24 months after the Initial Closing.

CBR Warrants

As part of the Structured Equity Facility, Carbon Revolution has agreed to issue a warrant (CBR Warrant) to OIC. Under the CBR Warrant, OIC will be entitled to subscribe for, and to be issued, up to 6,000,000 Carbon Revolution Shares (in full or in part), which will rank equally with all other Carbon Revolution Shares on issue.

Conditions of the Structured Equity Facility

a. Initial Tranche

The SEF Documents, as amended, provide that a number of conditions precedent need to be satisfied or waived before the completion of the subscription for and issue of Preferred Shares under the Initial Tranche occurs, including:

- the representations and warranties of MergeCo provided under the SEF Documents being true and correct except, in the case of certain representations and warranties only, to the extent the breaches could not have had a material adverse effect on MergeCo and its subsidiaries;
- the MergeCo shareholders and MergeCo Board have taken all steps necessary or expedient to effect the Share Capital Reduction (as defined below);
- publication of an announcement on ASX and a prospectus supplement filing with the SEC regarding MergeCo's entry into the SEF Documents and MergeCo's intention to effect a Share Capital Reduction (as defined below);
- no material adverse effect having occurred with respect to MergeCo and its subsidiaries;
- MergeCo obtaining certain agreed consents and waivers;
- MergeCo Shares having been approved for listing on a US Exchange;
- no material amendment or waiver to any provision or term of the business combination agreement in respect of the Transaction shall have occurred without the consent of OIC;
- Implementation having occurred;
- Prior to the Initial Closing Date, the Group has not received any notification from a key customer that would lead OIC to conclude, in its reasonable discretion, that the bailment and pre-payment arrangement undertaken by the key customer and the Group in the ordinary course of dealing will not continue to be applied to future sales of the Group's products to the key customer; and
- MergeCo providing to OIC agreements from certain advisers relating to the deferral of fees owed to them at Implementation in a form and substance agreed between MergeCo and OIC.

MergeCo is also required to deliver, among other items, prior to the closing of the Initial Tranche a board approved budget through to 31 December 2024, as mutually agreed upon by MergeCo and the OIC which budget will include

research and development expenses, selling, general and administrative expenses, property, plant and equipment and capital expenditures of no more than US\$53,247,000 in the aggregate.

b. Reserve Funds

The conditions before completion of any subscription for and issue of Preferred Shares relating to the Reserve Funds are similar to a subset of those set out above for the Initial Tranche but also include, for the First Reserve Release, that the relevant subscription and issue will not occur until the earlier of:

- MergeCo having raised at least US\$10 million from the issuance of MergeCo Shares (including through the Committed Equity Facility as described in the scheme booklet but subject to exceptions); (First Reserve Release Condition) and
- MergeCo having refinanced or repaid the New Debt Program (as defined below) on terms reasonably satisfactory to OIC, having realised a specified wheel production target and having realised a specified unit cost target (Second Reserve Release Condition).

Furthermore, if MergeCo fails to refinance the New Debt Program (as defined below), meet the specified wheel production target or unit cost target prior to 1 December 2024 (or, if MergeCo is continuing to work in good faith to complete or satisfy these items at 1 December 2024, on or prior to 31 January 2025), or fails to obtain the Share Capital Reduction Order (as defined below) within 60 days of the Initial Closing, OIC may choose to release the Reserve Funds and subscribe for the relevant Preferred Shares, withdraw from escrow the entire amount of the Reserve Funds (plus interest) or do some combination of the two.

c. Subsequent Financing

The conditions before completion of any Subsequent Financing are similar to a subset of those set out above for the Initial Tranche but also include:

- certain conditions relating to any future manufacturing facility constructed on or after the date of the Securities Purchase Agreement; and
- OIC's investment committee approves in its discretion the subscription for the relevant Preferred Shares.

A description of the full terms and conditions of the Structured Equity Facility can be found in the Group's press release dated 22 September 2023. Subsequent to 22 September 2023, the condition to the Initial Tranche relating to the advance payment arrangement has been amended, as shown above.

Amendments to the New Debt Program

As noted in Carbon Revolution's ASX announcement dated 24 May 2023 titled 'US\$60m New Debt Program', Carbon Revolution Operations Pty Ltd (as borrower), Carbon Revolution and each of its other Australian subsidiaries (as co-obligors), UMB Bank, National Association (as trustee for the noteholders) and Newlight Capital LLC (as Servicer) entered into the New Debt Program.

In connection with the Structured Equity Facility, the parties to the New Debt Program have agreed to amend the terms of the New Debt Program as follows:

- **Minimum Liquidity:** From 30 June 2023 and for each month thereafter that the average monthly adjusted EBITDA (based on the previous consecutive three months) of the group is less than zero, the Combined Group must satisfy a minimum available cash requirement covenant, which requires the total cash available to the group to be greater

than or equal to the minimum available cash requirement. The minimum available cash requirement is an amount not less than the product of the absolute value of the average monthly adjusted EBITDA for the three months most recently ended on such date multiplied by 6.00 for the fiscal months ending

30 June 2023 to 30 November 2023 (originally 30 June 2023 to 31 October 2023) and 9.00 for the fiscal month ending 31 December 2023 (originally 30 November 2023) and on the last day of each month thereafter.

- SPAC Transaction Close Date: The deadline to Implementation is amended from 31 August 2023 (with a 60-day cure period) to 30 September 2023 (with a 60-day cure period).
- Qualified Capital Raise: If Carbon Revolution (before Implementation) or MergeCo (following Implementation) does not raise at least an additional US\$60 million in qualifying equity or subordinated debt financing on or prior to 31 December 2023 (Qualified Capital Raise), and raises:
 - below US\$45m in one or more Qualified Capital Raises (or does not undertake a Qualified Capital Raise), the following fees will be payable to the Servicer on the earlier of the (i) refinancing or payoff of the New Debt Program and (ii) 1 May 2027:
 - US\$6 million paid in cash; or
 - as a result of the agreed amendments, if no event of default has occurred, US\$1,500,000 paid in cash and 500,000 MergeCo Shares, unless Implementation does not occur by 30 September 2023 and this is not cured within 60 days; and between US\$45m and US\$60m in one or more Qualified Capital Raises, the following fees will be payable to the Servicer on the earlier of the (i) refinancing or payoff of the New Debt Program and (ii) 1 May 2027:
 - US\$3 million paid in cash; or
 - as a result of the agreed amendments, if no event of default has occurred, US\$1.5 million paid in cash and 500,000 MergeCo Shares (reduced by 1 MergeCo Share for every US\$30 raised over US\$45 million) unless Implementation does not occur by 30 September 2023 and this is not cured within 60 days.

In each scenario, MergeCo to use commercially reasonable efforts to register the MergeCo Shares for resale under the Securities Act.

Further, as discussed in note 1.3 Going Concern, the Group has forecast breaches to its debt service reserve and minimum cash requirement at 30 September 2023. Subsequent to 30 June 2023, the Group has received indication from the lender that they will agree to waive these covenants for September and October 2023, with the tests resuming in November 2023. As of the date of issuance these financial statements, the lender is in the process of preparing an amendment to formally document the waiver.

Advisor Deferral Agreements

Subsequent to 30 June 2023, the Group reached agreement with certain of its advisers relating to the deferral of \$23.7 million of fees owed to them at Implementation, with \$10.6 million of these fees projected to be payable during the next 12 month period on a pro rata basis as and when additional funds are raised (excluding the SEF).

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 2023 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position at 30 June 2023 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, 29 September 2023

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 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policy information, and the directors' declaration.

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

- Giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the year then ended; and
- 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 & 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1.3 to the financial statements, which indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 for 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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>Capitalisation of development costs</i> <i>Refer to Note 3.5 Intangible assets</i></p> <p>As at 30 June 2023 the Group's capitalised development costs totalled \$15.8 million (2022: \$13.5 million), with \$4.7 million additions in the current year (2022: \$5.9 million), 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"> ○ The expenditure meets all of the criteria under AASB 138 <i>Intangible Assets</i> (AASB 138), for capitalisation as intangible assets, including that the expenditure relates to development and not research activities, ○ There are expected future economic benefits, in excess of the value of, and attributable to the intangible assets, that will flow to the Group, ○ The amortisation of intangible assets commences when the asset is available for use in the manner intended by management, and ○ The useful lives assigned are appropriate. <p>Given the significance of the development costs and the level of judgement being exercised by management in relation to capitalisation, we identified this as a key audit matter.</p>	<p><i>Our procedures included, but were not limited to:</i></p> <ul style="list-style-type: none"> ○ Obtaining an understanding of the accounting policies and processes and, where in existence, the design and implementation of directly related controls, by management, to determine whether and how much of expenditure should be capitalised as intangible assets, from when it should amortised, and over what period; ○ Assessing that management's accounting policy is consistent with AASB 138; ○ Assessing development costs capitalised during the year, and the register of capitalised intangible assets as at the balance sheet date, to determine whether, and on a sample basis tested to verify that: <ul style="list-style-type: none"> ▪ costs capitalise in the current year meet all of the recognition criteria under AASB 138; ▪ it is probable that expected future economic benefits in excess of the capitalised value of, and attributable to these intangible assets, will flow to the Group; ▪ the amortisation on these intangible assets that are available for use has commenced on the appropriate date; and ▪ the useful lives assigned to each intangible asset are appropriate. ○ We have also assessed the appropriateness of the disclosures in Notes 3.5.1 to the financial statements.
<p><i>Carrying Value of Property, Plant and Equipment and Intangible Assets</i> <i>Refer to Note 3.3 Property, Plant and Equipment, Note 3.5 Intangibles assets and Note 3.5.1 Information about intangible assets and significant estimates</i></p> <p>As at 30 June 2023 the Group's carrying value of Property, Plant and Equipment and</p>	<p><i>Our procedures included, but were not limited to:</i></p> <ul style="list-style-type: none"> ○ Challenging the existence and completeness of impairment indicators, understanding the impact thereof on the use and value of intangible assets, and challenging the appropriateness of the valuation model used by management. ○ Obtaining an understanding of the controls implemented to address the risk relevant to the key assumptions and estimates within the ViU valuation model;

<p>Intangible Assets totalled \$86.9 million (\$72 million). These assets are required to be assessed for impairment where an indicator of impairment exists. Management has determined that indicators of impairment existed as at 30 June 2023.</p> <p>In addition, AASB 138 requires that intangible assets not yet available for use to be tested for impairment annually. These assets are tested for impairment as part of the cash-generating unit (CGU).</p> <p>Management has assessed that there is one CGU, being the Company itself, due to the nature of its business.</p> <p>Management applied the Value in Use (ViU) methodology for assessing the recoverable amount of the CGU.</p> <p>The determination of recoverable amount is complex and involves significant management judgements in respect of the assumptions and estimates used in preparing ViU models, using internal and external data as inputs, including the determination of:</p> <ul style="list-style-type: none"> ○ Forecasts of Revenue, Gross Margin and Earnings before Interest, Tax, Depreciation & Amortisation (EBITDA) for the years 2024 to 2028; ○ The terminal growth rate applied; ○ The discount rate applied; and ○ The appropriateness of the sensitivities disclosed in the financial statements. <p>Given the significance of the valuation of the assets of the Group and the level of judgement being exercised by management in relation to the recoverable amount of the business, we identified this as a key audit matter.</p>	<ul style="list-style-type: none"> ○ In conjunction with our valuation specialists, our procedures included, but were not limited to: <ul style="list-style-type: none"> ● Evaluating management’s identification of CGUs; ● Comparing the forecast cash flows to the latest Board approved budget; ● Comparing the estimated future and previous cash flows to the actual cash flows generated in the current year, challenging material differences to assess management’s ability to forecast cash flows accurately; ● Comparing the discount rate applied to the forecast cash flows with an independently developed rate; ● Challenging the appropriateness and reasonableness of key assumptions, comparing them to historical performance, industry benchmarks, and internal and external evidence available, including, but not limited to: <ul style="list-style-type: none"> ➢ Revenue, gross margin and EBITDA forecasts; ➢ Forecast budget period long-term and terminal growth rates; ➢ Working capital levels; and ➢ Required capital expenditure; ● Assessing the integrity of the ViU model, including the mathematical accuracy of the underlying calculation formulae; and ● Challenging and performing sensitivity analysis on the future cash flows, growth and discount rates; and ○ We have also assessed the appropriateness of the Group’s disclosure, including those related to sensitivities, in Note 3.5.1 to the financial statements.
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Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group’s annual report for the year ended 30 June 2023, but does not include the financial report and our auditor’s report thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or 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

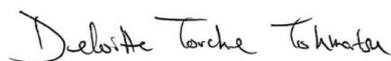
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 29 to 44 of the Directors' Report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Carbon Revolution Limited, for the year ended 30 June 2023, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors 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



Shodai Enters
Partner
Chartered Accountants

Melbourne, 29 September 2023

Shareholder Information

As at 28 July 2023

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 28 July 2023 unless indicated otherwise.

7.1 Distribution And Number Of Shareholders Of Equity Securities

The distribution and number of holders of equity securities on issue in the Company as at 28 July 2023, 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 28 July 2023, is as follows:

Range	Securities	%	No of holders
100,001 and Over	150,337,306	70.86	260
10,001 - 100,000	48,843,292	23.02	1,430
5,001 - 10,000	6,496,070	3.06	841
1,001 - 5,000	5,549,337	2.62	2,063
1 to 1,000	926,500	0.44	1,701
Total	212,152,505	100.00	6,295

Unmarketable parcels: 2,606 Holders of less than a marketable parcel of \$500 are included in the above total. Details of those holdings are:

	Securities	%	No of holders
Unmarketable Parcels	2,369,349	1.12	2,606

Distribution of holders of rights and options

Range	Securities	%	No of holders
100,001 and Over	11,593,611	94.41	15
10,001 to 100,000	609,143	4.96	19
5,001 to 10,000	39,560	0.32	5
1,001 to 5,000	37,844	0.31	15
1 to 1,000	0	0	0
Total	12,280,158	100.00	54

7.2 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	28 July 2023	% IC
1	BNP PARIBAS NOMS PTY LTD	15,207,528	7.17
2	UBS NOMINEES PTY LTD	10,696,631	5.04
3	HSBC Custody Nominees (Australia) Limited	8,718,376	4.11
4	Deakin University	8,377,592	3.95
5	Citicorp Nominees Pty Limited	7,343,013	3.46
6	BNP Paribas Nominees Pty Ltd	5,490,354	3.46
7	Crown in Right of the State of Victoria	5,421,742	2.56
8	Mr Luke Juston Martin Roser Carter	5,204,738	2.45
9	Pacific Custodians Pty Ltd	4,975,490	2.35
10	PJ Westcott Investments Pty Ltd	4,405,719	2.08
11	Point Grey Investments	3,737,430	1.76
12	BWT Pty Ltd	2,500,000	1.18
13	Matthew Dingle	2,085,378	0.98
14	Mr Donald Brett Gass	1,499,473	0.71
15	Mr Ashley James Denmead	1,243,000	0.59
16	Mr Xiaowei Chou	1,239,000	0.58
17	Mrs Laura Ingrid Goodwin	1,208,780	0.57
18	Mr Gordon Alexander Macdonald	1,050,000	0.49
19	Mr David Good	1,000,000	0.47
20	PJ Westcott Holdings Pty Ltd	928,921	0.44
	Total	92,333,165	43.52
	Balance of register	119,819,340	56.48
	Grand Total	212,152,505	

7.3 Substantial Holders

As at 28 July 2023, 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	Date Notice Provided	Number Held*
Ronal AG	23/08/2021	14,227,941
Tiga Trading Pty Ltd	7/05/2021	10,193,099

* Number of votes attached to all voting shares in the Company in which the substantial holder or its associates have a relevant interest

7.4 Voting Rights

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

7.4.1 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.

7.4.2 Rights and options

Rights and options do not carry any voting rights.

7.5 Unquoted Equity Securities

ASX Code	Class	Number of securities
CBRAF	Performance Rights	1,503,155
CBRAE	Options Expiring 23 December 2024	4,945,959
CBRAE	Options expiring 28 October 2026	5,780,825

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

7.6 On-market buy-back

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

7.7 On-market purchase of securities

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

Corporate Directory

Directors

James Douglas
Jake Dingle
Lucia Cade
Dale McKee
Mark Bernhard

Company Secretary

David Nock

Registered Office

Carbon Revolution
Building NR, Geelong Technology Precinct
75 Pigdons Road, Waurin Ponds
Victoria, 3216 Australia
Phone +61 3 5271 3500

Share register

Link Market Services
Level 12, 680 George Street
Sydney NSW 2000
Australia
Ph. +61 1300 554 474

Auditor

Deloitte Touche Tohmatsu
477 Collins Street
Melbourne, Victoria 3000
Australia

Stock Exchange Listing

Carbon Revolution Limited shares are listed on the Australian Securities Exchange (ASX Code: CBR)

Business Objectives

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.

Website

www.carbonrev.com

