



# **CARBON REVOLUTION LIMITED**

ABN 96 128 274 653

## **FINANCIAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2019**

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# Directors' Report

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The directors of Carbon Revolution Limited ("the Company") submit herewith the annual report of the Company and its controlled entities ("the Group") for the financial year ended 30 June 2019 in order to comply with the provisions of the *Corporations Act 2001*. The directors' report as follows.

## Directors

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

- James Douglas
- Jake Dingle
- Brett Gass (resigned 14 September 2018)
- Bruce Griffiths
- Oliver Brauner (resigned 17 September 2018)
- Patrick Laemmler (resigned 17 September 2018)
- Lucia Cade (appointed 3 August 2018)
- Dale McKee (appointed 27 September 2018)
- Mark Bernhard (appointed 3 June 2019)
- Peter Lewinsky (appointed 3 June 2019)

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

## Principal Activities

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

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

## Results and Review of Operations

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

The Group incurred a net loss after tax of \$27.21 million and generated negative cashflows from operating activities of \$19.91 million during the year ended 30 June 2019. The Group is intending to continue to invest in the research and development required to bring its production processes to full commercialisation, and therefore remains in the pre-profitability stage of its lifecycle and dependent on capital investment.

To enable the continued operations of the Group, the Group recently completed a significant convertible notes capital raising and is well progressed with an additional capital raising process. Appropriate advisors are engaged for the additional capital raising process and the relevant due diligence processes have commenced.

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

## Significant Changes in the state of affairs

The Group issued convertible notes totaling \$73.37 million during the year. \$19.27 million of these convertible notes were originally drawn under a convertible loan agreement with the State of Victoria who subsequently elected to convert these advances into this instrument. There have been no other significant changes in the state of affairs of the Group.

## Likely Future Developments

The Group intends to undertake capital raising in the financial year ending 30 June 2020, refer to Note 1.3 on Going Concern. Further information on likely developments have not been provided on the basis that the inclusion of such information would likely result in unreasonable prejudice being placed on the Group.

## Environmental Regulation

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

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

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

# Directors' Report

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## Dividends Paid, Recommended and Declared

The Group has not declared or paid any dividends in respect of the 30 June 2019 financial year.

## Events Subsequent to Reporting Date

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

## Share Options

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

## Indemnification and Insurance of Directors, Officers and Auditors

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

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

## Information on Directors and Officers of the Company

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

Director Name	Particulars
James Douglas	<p><b>Chair</b></p> <p>James Douglas joined the board in 2011 and was a member of the Remuneration Committee and Chair of the Audit and Risk Committee until 30 June 2019. He will continue as member of the Audit and Risk Committee from 1 July 2019. He is Investment Director at Acorn Capital and the founder of Newmarket Capital and previously held various executive roles in the financial services industry. He is a Non-Executive Director of Quickstep Holdings Limited. Mr Douglas has a Science degree and Law degree from Melbourne University and is a Graduate Member of the Australian Institute of Company Directors.</p>
Jake Dingle	<p><b>Chief Executive Officer, Managing Director</b></p> <p>Jake Dingle joined the board in 2008 as one of the initial investors and founders as Executive Chairman and transitioned into the CEO role in 2012. Previously he held various executive roles in engineering, operations, strategy and mergers and acquisitions within Australian listed and unlisted companies. He has a Mechanical Engineering degree from RMIT, an MBA from The Melbourne Business School and is a Graduate Member of the Australian Institute of Company Directors.</p>
Brett Gass	<p><b>Executive Director</b></p> <p>Brett Gass is a founder of Carbon Revolution and was appointed to the board in 2007 until his resignation on 14 September 2018. Previously he held various senior management roles within the automotive industry in Canada, US, Australia and Germany. He has an Engineering Physics degree from the University of Saskatchewan, Canada and is a Member of the Australian Institute of Company Directors.</p>

# Directors' Report

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## **Bruce Griffiths**

### **Non-Executive Director**

Bruce Griffiths joined the board in 2014 and is Chair of the Remuneration Committee and was a member of the Audit and Risk Committee until 30 June 2019. He has held a number of senior executive roles within the manufacturing industry and is a board member of the Industry Capability Network Limited (ICNL) and is a non-executive director of Quickstep Holdings Limited. Mr Griffiths was awarded the Order of Australia Medal for services to the automotive manufacturing industry and to the community.

## **Oliver Brauner**

### **Non-Executive Director**

Oliver Brauner joined the board in 2013 and was a member of the Audit and Risk Committee until his resignation from the board on 17 September 2018. Oliver is Chief Financial Officer of the Ronal Group and has a Master of Advance Studies degree in Accounting and Finance from HWZ/ University of Applied Science Zurich.

## **Patrick Laemml**

### **Non-Executive Director**

Patrick Laemml joined the board in 2015 and was a member of the Remuneration Committee until his resignation from the board on 17 September 2018. Patrick is Vice President Sales of the Ronal Group and has held several board responsibilities in Switzerland, USA, Mexico, Brazil, Hong Kong and the Czech Republic. He is a member of the executive management team of Ronal Group, responsible for marketing, sales and engineering.

## **Lucia Cade**

### **Non-Executive Director**

Lucia Cade joined the board on 3 August 2018 as a non-executive director and became a member of the Remuneration Committee on 1 July 2019. Lucia has held various executive positions in the infrastructure and advisory industries. She is Chair of South East Water, and non-executive director of Engineers Australia, the Regional Investment Corporation, the CRC for Energy Pipelines and Future Fuels and PuriflOH Ltd.

## **Dale McKee**

### **Non-Executive Director**

Dale McKee joined the board on 27 September 2018 as a non-executive director and was appointed Chair of the Audit and Risk Committee on 1 July 2019. Dale is a former senior partner at PwC with extensive experience serving listed companies in audit, accounting, corporate governance, risk management and capital markets matters. He has a Bachelor of Business from Federation University and is a Fellow of the Institute of Chartered Accountants in Australia and New Zealand.

## **Mark Bernhard**

### **Non-Executive Director**

Mark Bernhard joined the board on 3 June 2019 as a non-executive director and became a member of the Remuneration Committee on 1 July 2019. Mark has 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. Mark recently studied Transformational Management at Stanford University.

## **Peter Lewinsky**

### **Non-Executive Director**

Peter Lewinsky joined the board on 3 June 2019 as a non-executive director and was appointed to the Audit and Risk Committee on 1 July 2019. Peter has significant investment banking and corporate advisory experience. He has served or is currently serving on the boards of Ambulance Victoria, Holmesglen Institute of TAFE (Chair), Australian Centre for the Moving Image, TAL Superannuation Ltd and the Tasmanian Water and Sewerage Corporation.

# Directors' Report

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## David Nock

## Company Secretary

David Nock was appointed Company Secretary on 13 September 2017 and has held the position since then. David has held a number of roles within Australian, US and European listed companies. He has Arts and Law Degrees from Melbourne University and an MBA from the Melbourne Business School.

## Directors' Meetings

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

### Board Meetings:

Director Name	Number of meetings eligible to attend	Number of meetings attended
James Douglas	39	39
Jake Dingle	41	41
Brett Gass (resigned 14 September 2018)	6	6
Bruce Griffiths	41	41
Oliver Brauner (resigned 17 September 2018)	6	5
Patrick Laemmler (resigned 17 September 2018)	6	4
Lucia Cade (appointed 3 August 2018)	39	37
Dale McKee (appointed 27 September 2018)	35	35
Mark Bernhard (appointed 3 June 2019)	2	2
Peter Lewinsky (appointed 3 June 2019)	2	2

### Audit and Risk Committee Meetings:

Director Name	Number of meetings eligible to attend	Number of meetings attended
James Douglas	2	2
Bruce Griffiths	2	2
Oliver Brauner	1	1

### Remuneration Committee Meetings:

Director Name	Number of meetings eligible to attend	Number of meetings attended
James Douglas	1	1
Bruce Griffiths	1	1
Patrick Laemmler	-	-

# Directors' Report

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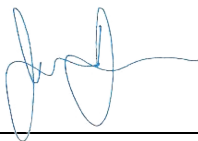
## Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2019 has been received and is found on page 8.

## Rounding

The amounts contained in the Directors' Report and financial report have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016. The Company is an entity to which the Class Order applies.

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



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James Douglas

Chair

Melbourne, 15 August 2019



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Jake Dingle

Managing Director

Melbourne, 15 August 2019

15 August 2019

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

Dear Board Members,

### **Auditor's Independence Declaration to Carbon Revolution Limited**

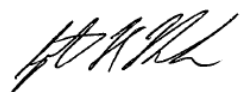
In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Carbon Revolution Limited.

As lead audit partner for the audit of the financial report of Carbon Revolution Limited for the year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

  
DELOITTE TOUCHE TOHMATSU



Stephen Roche  
Partner  
Chartered Accountants



# Consolidated statement of profit or loss and other comprehensive income

For the Year Ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
Sale of wheels		13,837	6,725
Engineering services		870	1,254
Sale of tooling		361	131
<b>Revenue</b>	2.1	<b>15,068</b>	<b>8,110</b>
Cost of goods sold		(22,534)	(11,420)
<b>Gross margin</b>		<b>(7,466)</b>	<b>(3,310)</b>
Other income	2.1	5,121	3,842
Operational expenses		(3,037)	(3,367)
Research and development		(4,490)	(8,188)
Administrative expenses		(6,379)	(5,640)
Marketing expenses		(1,671)	(1,515)
Capital raising transaction costs		(7,684)	-
Borrowing costs	2.2	(2,154)	(1,397)
Gain/(loss) on revaluation of financial instruments	4.2.4	548	(666)
<b>Loss before income tax expense</b>		<b>(27,212)</b>	<b>(20,241)</b>
Income tax expense	2.4	-	-
<b>Loss for the year after income tax</b>		<b>(27,212)</b>	<b>(20,241)</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Foreign currency translation differences - foreign operations		(94)	(46)
<b>Other comprehensive income</b>		<b>(94)</b>	<b>(46)</b>
<b>Total comprehensive loss for the year, net of tax</b>		<b>(27,306)</b>	<b>(20,287)</b>
<b>Earnings per share</b>			
Basic	2.6	(\$0.53)	(\$0.40)
Diluted	2.6	(\$0.53)	(\$0.40)

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

# Consolidated statement of financial position

As at 30 June 2019

	Note	30 June 2019 \$'000	30 June 2018 \$'000
<b>Current assets</b>			
Cash and cash equivalents	4.1	45,843	19,179
Receivables	3.1	9,031	5,267
Inventories	3.2	9,670	4,014
Other current assets		321	282
<b>Total current assets</b>		<b>64,865</b>	<b>28,742</b>
<b>Non-current assets</b>			
Property, plant and equipment	3.3	31,536	18,031
Intangible assets	3.4	7,886	564
<b>Total non-current assets</b>		<b>39,422</b>	<b>18,595</b>
<b>Total assets</b>		<b>104,287</b>	<b>47,337</b>
<b>Current liabilities</b>			
Payables	3.5	11,695	4,531
Borrowings	4.2	74,032	22,243
Derivative financial liabilities	4.2	-	1,928
Deferred income	3.7	608	605
Provisions	3.6	2,521	1,407
<b>Total current liabilities</b>		<b>88,856</b>	<b>30,714</b>
<b>Non-current liabilities</b>			
Borrowings	4.2	25,500	-
Deferred income	3.7	3,160	2,489
Provisions	3.6	180	320
<b>Total non-current liabilities</b>		<b>28,840</b>	<b>2,809</b>
<b>Total liabilities</b>		<b>117,696</b>	<b>33,523</b>
<b>Net (liabilities) / assets</b>		<b>(13,409)</b>	<b>13,814</b>
<b>(Deficiency in equity) / equity</b>			
Contributed equity		75,897	75,814
Reserves	4.6	(477)	(383)
Accumulated losses		(88,829)	(61,617)
<b>Total (deficiency in equity) / equity</b>		<b>(13,409)</b>	<b>13,814</b>

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

# Consolidated statement of changes in equity

For the Year Ended 30 June 2019

	Note	Contributed Equity	Share buyback reserve	Accumulated Losses	Foreign Currency Translation Reserve	Total Equity
		\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance as at 1 July 2017</b>		<b>75,798</b>	<b>(311)</b>	<b>(41,376)</b>	<b>(26)</b>	<b>34,085</b>
<b>For the year ended 30 June 2018:</b>						
Net loss after tax for the year		-	-	(20,241)	-	(20,241)
Other comprehensive loss for the year		-	-	-	(46)	(46)
<b>Total comprehensive loss for the year</b>		<b>-</b>	<b>-</b>	<b>(20,241)</b>	<b>(46)</b>	<b>(20,287)</b>
<b>Transactions with owners in their capacity as owners:</b>						
Issue of share capital	4.5	53	-	-	-	53
Costs of equity raising		(37)	-	-	-	(37)
<b>Total transactions with owners in their capacity as owners</b>		<b>16</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16</b>
<b>Balance as at 30 June 2018</b>		<b>75,814</b>	<b>(311)</b>	<b>(61,617)</b>	<b>(72)</b>	<b>13,814</b>
<b>For the year ended 30 June 2019:</b>						
Net loss after tax for the year		-	-	(27,212)	-	(27,212)
Other comprehensive loss for the year		-	-	-	(94)	(94)
<b>Total comprehensive loss for the year</b>		<b>-</b>	<b>-</b>	<b>(27,212)</b>	<b>(94)</b>	<b>(27,306)</b>
<b>Transactions with owners in their capacity as owners</b>						
Issue of share capital	4.5	83	-	-	-	83
<b>Total transactions with owners in their capacity as owners</b>		<b>83</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>83</b>
<b>Balance as at 30 June 2019</b>		<b>75,897</b>	<b>(311)</b>	<b>(88,829)</b>	<b>(166)</b>	<b>(13,409)</b>

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

# Consolidated statement of cash flows

For the Year Ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
<b>Cash flow from operating activities</b>			
Receipts from customers		13,151	7,217
Receipt of grants and research and development incentives		4,367	4,253
Payments to suppliers and employees		(36,140)	(26,759)
Interest received		109	782
Borrowing costs		(1,398)	(1,397)
<b>Net cash used in operating activities</b>	2.3	<b>(19,911)</b>	<b>(15,904)</b>
<b>Cash flow from investing activities</b>			
Payment for property, plant and equipment		(14,901)	(7,378)
Payment for intangible assets		(7,846)	(125)
Proceeds from sale of property, plant and equipment		-	131
Receipts from financial assets		-	18,000
<b>Net cash (used in) / provided by investing activities</b>		<b>(22,747)</b>	<b>10,628</b>
<b>Cash flow from financing activities</b>			
Proceeds from convertible notes*		73,122	-
Capital raising transaction costs		(6,341)	-
Net proceeds from third party borrowings		7,702	-
Repayment of third party borrowings		(161)	(1,863)
Repayment of related party borrowings		(5,000)	-
<b>Net cash provided by / (used in) financing activities</b>		<b>69,322</b>	<b>(1,863)</b>
Net increase / (decrease) in cash held		26,664	(7,139)
Cash at beginning of financial year		19,179	26,318
<b>Cash at end of financial year</b>		<b>45,843</b>	<b>19,179</b>

\* \$19.27 million of these proceeds were originally drawn under a convertible loan agreement with the State of Victoria who subsequently elected to convert these advances into this instrument.

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

# Notes to the financial statements

For the Year Ended 30 June 2019

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## Note 1: Significant accounting policies and corporate information

### 1.1. Corporate information

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

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

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

The address of the Company’s registered office and its principal place of business is:

Building NR  
75 Pigdons Road  
Waurin Ponds VIC 3216

### 1.2. Basis of preparation

This financial report is a general purpose financial report, for a for-profit entity which has been prepared in accordance with Australian Accounting Standards, Interpretations and other applicable authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

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

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

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

### 1.3. Going concern

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

For the year ended 30 June 2019, the consolidated entity incurred a loss after tax of \$27.212 million (2018: \$20.241 million) and reported negative net cash flows from operating activities of \$19.911 million (2018: \$15.904 million) and negative net cash flows from investing activities of \$22.747 million (2018: positive \$10.628 million). As at 30 June 2019 the consolidated entity had a current net asset deficiency of \$23.991 million and a net asset deficiency of \$13.409 million.

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

During the year, Carbon Revolution Limited successfully issued \$73.368 million of convertible notes as disclosed in Note 4.2. These notes automatically convert to equity in the event of Carbon Revolution Limited listing on the ASX raising no less than \$25 million or in the circumstance of an Exit Event, otherwise they have a maturity date of 30 May 2020.

The Group has prepared a detailed cash flow forecast for the year ending 30 June 2020. Based on forecast revenue and operating costs, research and development and capital expenditure plans, the Group must raise equity or debt funding during the financial year ending 30 June 2020 to continue as a going concern. The cash flow forecast assumes a minimum IPO capital raising of \$25 million over the forecast period with mandatory conversion of the convertible notes to equity.

The Group has made significant progress towards raising the requisite level of new capital. Appropriate advisors are engaged for the capital raising process and the relevant due diligence processes have commenced.

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

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

# Notes to the financial statements

For the Year Ended 30 June 2019

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

## 1.4. Basis of consolidation

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

## 1.5. Comparatives

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current period.

## 1.6. Adoption of new accounting standards

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

- AASB 9 *Financial Instruments* – replaced AASB 139 *Financial Instruments: Recognition and Measurement* and all previous versions of AASB 9. AASB 9 brings together all three aspects of the accounting for financial instruments – classification and measurement, impairment and hedge accounting. Given the relatively simple nature of the Group's financial instruments, there was no impact on the financial statements.
- AASB 15 *Revenue from Contracts with Customers* – establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The Group has performed an assessment of the impact on a contract by contract basis with the AASB 15 impact resulting in a reclassification of sale of tooling within the profit and loss without any impact on financial results. The accounting policy is further described in note 2.1.1. The Group has adopted the full retrospective method with a restatement of the sale of tooling comparatives as follows:

	<b>2018 Restated \$'000</b>	<b>2018 Reported \$'000</b>
Revenue	8,110	7,979
Cost of goods sold	(11,420)	(11,278)
Gross Profit	(3,310)	(3,299)
Operational expenses	(3,367)	(3,378)
Net impact	-	-

# Notes to the financial statements

For the Year Ended 30 June 2019

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- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions* – issued amendments to AASB 2 Share-based payments that addressed three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payments transactions; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes from cash settled to equity settled. The Group has no cash settled or net settled share-based payment arrangements in place.
- AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration* – clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or liability arising from the advance consideration. The Group's current practice is in line with the Interpretation to the extent that it is applicable so there is no effect on the financial statements.

## 1.7. Significant accounting judgements, estimates and assumptions

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

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

## 1.8. Current versus non-current classification

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

An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

## 1.9. Foreign currency translations and balances

### Functional and presentation currency

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

### Transactions and balances

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

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

# Notes to the financial statements

For the Year Ended 30 June 2019

## Overseas subsidiary

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

## Note 2: Financial Performance

### 2.1. Revenue

#### 2.1.1. Accounting policies

Revenue is recognised 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.

#### Sale of goods

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

#### Rendering of services

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

#### Interest revenue

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

#### Other revenue

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

#### Government Grants

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

#### 2.1.2. Other income

	2019 \$'000	2018 \$'000
Government grants	4,936	3,074
Interest income	169	698
Unrealised foreign exchange gain	7	63
Other income	9	7
	5,121	3,842



# Notes to the financial statements

For the Year Ended 30 June 2019

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## 2.2. Expenses

### 2.2.1. Accounting policies

#### Borrowing costs

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

#### Depreciation

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

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

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

#### Research and development expenditure

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

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

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

Amortisation is calculated using a straight-line method to allocate the cost of intangible assets over their estimated useful lives (5 year period). Amortisation commences when the intangible asset is available for use.

#### Patent and trademark amortisation

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

# Notes to the financial statements

For the Year Ended 30 June 2019

## 2.2.2. Expenses

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Finance costs</b>		
Interest on convertible loan facility	1,624	1,394
Interest on obligations under finance leases	-	3
Interest on insurance premium funding	6	-
Facility costs	523	-
	<u>2,154</u>	<u>1,397</u>
<b>Salaries and employee benefit expense</b>		
Wages and salaries	16,664	12,059
Post-employment benefits	1,247	858
Share-based payments expense	300	136
	<u>18,211</u>	<u>13,053</u>
<b>Obsolescence and impairment</b>		
Provision for trial wheels, obsolescence and scrap	(717)	2,281
	<u>(717)</u>	<u>2,281</u>
<b>Depreciation and amortisation</b>		
Property, plant and equipment	2,772	2,090
Development	468	-
Patents and trademarks	56	48
	<u>3,296</u>	<u>2,138</u>
<b>Rental expense on operating leases</b>		
Minimum lease payments	676	315
	<u>676</u>	<u>315</u>
Loss on sale of property, plant and equipment	-	11
	<u>-</u>	<u>11</u>

# Notes to the financial statements

For the Year Ended 30 June 2019

## 2.3. Cash flow information

	2019 \$'000	2018 \$'000
<b>Reconciliation of profit for the period to cash flows from operating activities</b>		
<b>Loss after income tax</b>	(27,212)	(20,241)
<b>Non-cash items from ordinary activities</b>		
Depreciation and amortisation	3,296	2,138
Share based payment expenses	83	53
Loss/(Profit) on sale of plant and equipment	-	11
Movement in inventory provision	(717)	2,280
Write off of property, plant and equipment	182	281
(Gain)/Loss on revaluation of financial instruments	(548)	666
<b>Other</b>		
Capital raising transaction costs	7,684	-
<b>Changes in assets and liabilities</b>		
<i>(Increase)/decrease in assets:</i>		
- Receivables	(3,820)	(765)
- Inventories	(4,940)	(2,601)
- Other assets	(33)	1,152
<i>Increase/(decrease) in liabilities:</i>		
- Payables	4,466	569
- Deferred income	673	(146)
- Provisions	975	699
<b>Cash used in operating activities</b>	<b>(19,911)</b>	<b>(15,904)</b>

## 2.4. Income and other taxes

### 2.4.1. Accounting policies

Income and other taxes consist of income tax and goods and services tax ("GST").

#### Income tax

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

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

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

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

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

# Notes to the financial statements

For the Year Ended 30 June 2019

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

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

## GST

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

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

### 2.4.2. Critical accounting estimates and judgements

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

### 2.4.3. Income tax expense

The major components of income tax expense are:

	2019 \$'000	2018 \$'000
<b>Consolidated statement of profit or loss</b>		
Current income tax charge/benefit	-	-
Adjustment for current tax relating to prior periods	-	-
Deferred income tax relating to the origination and reversal of temporary differences	-	-
	-	-

	2019 \$'000	2018 \$'000
<b>The prima facie tax benefit on loss before tax differs from the income tax expense as follows:</b>		
Accounting loss before tax	(27,212)	(20,241)
Benefit at the Australian statutory income tax rate of 30% (2018: 30%)	8,164	6,072
<i>Tax impact of:</i>		
Non-deductible expenses	(1,353)	(1,606)
Non-assessable income	1,161	597
Impact of different tax rates in foreign jurisdictions	(43)	(74)
Current year taxable loss not recognised	(7,929)	(4,989)
<b>Income tax benefit</b>	-	-

# Notes to the financial statements

For the Year Ended 30 June 2019

## 2.4.4. Deferred taxes

	2019 \$'000	2018 \$'000
<b>Deferred tax assets</b>		
Provisions and accruals	2,401	1,241
Embedded derivative	-	351
Capital raising	1,786	-
Other	-	7
	<u>4,187</u>	<u>1,599</u>
<b>Deferred tax liabilities</b>		
Receivables	(18)	-
Capital raising costs	-	(113)
Other	-	(1)
	<u>(18)</u>	<u>(114)</u>
Net deferred tax asset	<u>4,169</u>	<u>1,485</u>
<b>Deferred taxes not recognised</b>	<u>4,169</u>	<u>1,485</u>

## 2.4.5. Unrecognised deferred tax assets

At 30 June 2019 the Group has unrecognised deferred tax assets of \$16.8 million arising from the Group's tax losses not booked of \$55.9 million mainly relating to Australian tax losses (2018: unrecognised deferred tax asset of \$11.6 million).

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

## 2.5 Segments

The Group operates predominantly 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.

Revenue and non-current assets by geography comprise:

	2019 \$'000	2018 \$'000
<b>Revenue</b>		
Domestic	27	28
International	15,041	8,083
	<u>15,068</u>	<u>8,111</u>
<b>Non-current assets</b>		
Domestic	39,422	18,595
International	-	-
	<u>39,422</u>	<u>18,595</u>

The Group has 2 customers from which it received more than 10% of its revenue.

# Notes to the financial statements

For the Year Ended 30 June 2019

## 2.6 Earnings per share

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

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Earnings</b>		
Earnings for the purposes of basic earnings per share being loss for the year	(27,212)	(20,241)
Effect of dilutive potential ordinary shares	-	-
Earnings for the purposes of diluted earnings per share	<u>(27,212)</u>	<u>(20,241)</u>
	<b>2019</b>	<b>2018</b>
	<b>No. '000</b>	<b>No. '000</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	50,881	50,862
Effect of dilutive potential ordinary shares	-	-
	<u>50,881</u>	<u>50,862</u>

## Note 3: Assets and Liabilities

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

### 3.1. Receivables

#### 3.1.1. Accounting policies

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans or receivables. Trade receivables are measured at the transaction price in accordance with AASB 15. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Where applicable, interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

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.

# Notes to the financial statements

For the Year Ended 30 June 2019

## 3.1.2. Receivables balances

	2019 \$'000	2018 \$'000
<b>Current</b>		
Trade receivables	4,650	2,287
Other receivables	3,308	2,419
GST recoverable	1,073	561
	<u>9,031</u>	<u>5,267</u>

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

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

	Total \$'000	<30 days \$'000	30-60 days \$'000	61-90 days \$'000	91-180 day \$'000	>180 days \$'000
<b>2019</b>	4,650	2,594	1,414	179	463	-
<b>2018</b>	2,287	1,532	589	35	131	-

See note 4.3.3 regarding credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables. There is currently no allowance for expected credit losses as the Group has historically collected all customer debt amounts and expects to continue to do so for the customers contained within the balance at year end.

## 3.2. Inventories

### 3.2.1. Accounting policies

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

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

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

Inventory provisions include an allowance for trial wheels, obsolete stock and production scrap.

### 3.2.2. Critical Accounting Estimates and Judgement

Management's judgement is applied in determining the provision for trial wheels, obsolescence and scrap. If the estimated selling price of inventory is lower than the cost to sell, the difference is recognised in the provision for trial wheels, obsolescence and scrap.

### 3.2.3. Inventories balances

	2019 \$'000	2018 \$'000
<b>Current</b>		
Raw materials	5,954	2,097
Work in progress	5,092	3,912
Finished goods	723	1,062
Consumables and spare parts	877	636
Provision for trial wheels, obsolescence and scrap	(2,976)	(3,693)
<b>Inventories at the lower of cost and net realisable value</b>	<u>9,670</u>	<u>4,014</u>

# Notes to the financial statements

For the Year Ended 30 June 2019

## 3.3. Property, plant and equipment

### 3.3.1. Accounting policies

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

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

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

### 3.3.2. Property, plant and equipment balances

	Capital works in progress	Leasehold improve- ments	Manufact- uring equipment	Tooling	Other equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross cost	4,966	2,672	10,279	5,573	807	24,297
Less accumulated depreciation	-	(401)	(2,889)	(2,655)	(321)	(6,266)
<b>At 30 June 2018</b>	<b>4,966</b>	<b>2,271</b>	<b>7,390</b>	<b>2,918</b>	<b>486</b>	<b>18,031</b>
Gross cost	8,979	5,011	17,086	8,046	1,339	40,461
Less accumulated depreciation	-	(554)	(4,306)	(3,602)	(463)	(8,925)
<b>At 30 June 2019</b>	<b>8,979</b>	<b>4,457</b>	<b>12,780</b>	<b>4,444</b>	<b>876</b>	<b>31,536</b>

### Movement in carrying amounts

Balance at 1 July 2017	4,726	2,352	3,362	2,373	355	13,168
Additions	7,378	-	-	-	-	7,378
Transfer into/(out of) capital WIP	(6,815)	51	5,048	1,457	259	-
Depreciation expense	-	(132)	(1,009)	(830)	(119)	(2,090)
Disposals/write-offs	(323)	-	(11)	(82)	(9)	(425)
<b>Balance at 30 June 2018</b>	<b>4,966</b>	<b>2,271</b>	<b>7,390</b>	<b>2,918</b>	<b>486</b>	<b>18,031</b>
Additions	16,504	-	-	-	-	16,504
Transfer into/(out of) capital WIP	(12,345)	2,338	6,824	2,633	550	-
Depreciation expense	-	(152)	(1,421)	(1,043)	(156)	(2,772)
Disposals/write-offs	(146)	-	(13)	(64)	(4)	(227)
<b>Balance at 30 June 2019</b>	<b>8,979</b>	<b>4,457</b>	<b>12,780</b>	<b>4,444</b>	<b>876</b>	<b>31,536</b>

There is no plant and equipment under finance lease included above (30 June 2018: nil). Capital works in progress includes manufacturing equipment, tooling and other equipment that are under construction as at the reporting date.

## 3.4. Intangible assets

### 3.4.1. Accounting policies

#### Patents and trademarks

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

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

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

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



# Notes to the financial statements

For the Year Ended 30 June 2019

## Capitalised development costs

Development expenditure is capitalised when the Group can demonstrate:

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

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

As at 30 June 2019 the Group has \$7.3m of capitalised development costs (2018: nil).

### 3.4.2. Intangible asset balances

	Development costs \$'000	Patents and trademarks \$'000	Total \$'000
Gross cost	-	753	753
Less accumulated amortisation	-	(189)	(189)
<b>At 30 June 2018</b>	-	564	564
Gross cost	7,732	867	8,599
Less accumulation amortisation	(468)	(245)	(713)
<b>At 30 June 2019</b>	7,264	622	7,886
<b>Movement in carrying amounts</b>			
Balance at 1 July 2017	-	487	487
Additions	-	125	125
Amortisation	-	(48)	(48)
<b>Balance at 30 June 2018</b>	-	564	564
Additions	7,732	114	7,846
Amortisation	(468)	(56)	(524)
<b>Balance at 30 June 2019</b>	7,264	622	7,886

### 3.4.3. Critical accounting estimates and judgements

When there is an indicator of impairment for property, plant and equipment and finite lived intangible assets, determining whether such assets are impaired requires an estimation of the recoverable amount of the asset or cash generating units to which the assets have been allocated. Recoverable amount is based on the higher of fair value less costs to sell, or value in use. The Group has assessed recoverable amount based on fair value less costs to sell.

The estimate of fair value less costs to sell was calculated by assessing the future cash flows expected to arise from the cash-generating unit based on 2020 budgets and growth rates applied to estimate cash flows for the years from 2021 to 2024. A suitable discount rate was applied in order to calculate the present value of the future cash flows. Where the actual cash flows are less than the carrying value of the assets, an impairment loss is recognised.

# Notes to the financial statements

For the Year Ended 30 June 2019

The directors estimate that a reasonably possible change in sales growth and resulting profitability could result in the aggregate carrying amount of the cash-generating unit exceeding the recoverable amount of the cash-generating unit. The directors believe that any reasonably possible change in other key assumptions on which recoverable amount is based would not cause the property, plant and equipment or intangible assets to exceed their recoverable amount.

No impairment was recognised during the financial year.

## 3.5. Payables

### 3.5.1. Accounting policies

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

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

Payables includes interest payable on borrowings.

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

### 3.5.2. Payables balances

	2019 \$'000	2018 \$'000
<b>Current</b>		
<i>Unsecured liabilities</i>		
Trade payables	6,462	2,763
Accruals	4,474	1,401
Interest accrued	732	315
Other payables	27	52
	<u>11,695</u>	<u>4,531</u>

## 3.6. Provisions

### 3.6.1. Accounting policies

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

#### Employee benefits

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

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

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

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

#### Warranty claims

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

#### Onerous contracts

Provisions for onerous contracts are recognised when the tooling in progress is expected to be sold to the customer below cost. The onerous provision estimate on tooling exposure is reassessed annually.

# Notes to the financial statements

For the Year Ended 30 June 2019

## 3.6.2. Critical accounting estimates and judgements

Management's judgement is applied in determining the following key assumptions used in the calculation of the provision for warranty claims at reporting date:

- Future % of warranty claims
- Future costs of honouring the warranty.

## 3.6.3. Provision balances

	Employee benefits \$'000	Warranty claims \$'000	Onerous contracts \$'000	Total \$'000
Current	824	583	-	1,407
Non-current	320	-	-	320
<b>At 30 June 2018</b>	<b>1,144</b>	<b>583</b>	<b>-</b>	<b>1,727</b>
Current	1,326	1,093	102	2,521
Non-current	180	-	-	180
<b>At 30 June 2019</b>	<b>1,506</b>	<b>1,093</b>	<b>102</b>	<b>2,701</b>

### Movement in carrying amounts

Balance at 1 July 2017	708	459	-	1,167
Provided for during the year	850	124	-	974
Utilised during the year	(414)	-	-	(414)
<b>Balance at 30 June 2018</b>	<b>1,144</b>	<b>583</b>	<b>-</b>	<b>1,727</b>
Provided for during the year	1,038	510	102	1,650
Utilised during the year	(676)	-	-	(676)
<b>Balance at 30 June 2019</b>	<b>1,506</b>	<b>1,093</b>	<b>102</b>	<b>2,701</b>

## 3.7. Deferred income

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

	2019 \$'000	2018 \$'000
At 1 July	3,094	3,253
Received during the year	1,273	937
Released to the statement of profit or loss	(599)	(1,096)
At 30 June	<b>3,768</b>	<b>3,094</b>
Current	608	605
Non-current	3,160	2,489
	<b>3,768</b>	<b>3,094</b>

# Notes to the financial statements

For the Year Ended 30 June 2019

## 3.8. Fair value measurements

### 3.8.1. Accounting policies

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

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

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

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

### 3.8.2. Fair Value Hierarchy

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>30 June 2019</b>				
<i>Financial liabilities – recurring fair value measurement</i>				
Convertible notes	-	-	73,991	73,991
Convertible loan facility conversion rights	-	-	-	-
<b>30 June 2018</b>				
<i>Financial liabilities – recurring fair value measurement</i>				
Convertible loan facility conversion rights	-	-	1,928	1,928

### 3.8.3. Critical Accounting Estimates and Judgements

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

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

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

#### 30 June 2019

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

The significant unobservable inputs to the value of the convertible notes going forward are the share price, the date of conversion, the average volatility of comparator companies and the probabilities associated with the capital raising.

#### 30 June 2018

The fair value of the conversion feature embedded in the convertible loan facility was determined by modelling the share price in a Monte Carlo simulation, weighted for the expected probability of the different methods of raising capital. The significant unobservable inputs to the value of the convertible feature embedded in the convertible notes were the share price, the date of conversion, the average volatility of comparator companies and the probabilities associated with the capital raising.

# Notes to the financial statements

For the Year Ended 30 June 2019

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## Note 4: Capital Structure and Financing

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

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

### 4.1. Cash, cash equivalents and other financial assets

#### 4.1.1. Accounting policies

##### Cash and cash equivalents

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

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

##### Financial assets

##### Recognition and derecognition

Financial assets are recognised when the Group becomes a party to the contractual provisions of the financial instruments.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or when the financial asset and substantially all the risks and rewards are transferred.

##### Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Company may make irrevocable election / designation at initial recognition of a financial asset at FVTPL.

##### Initial measurement of financial assets

Financial assets are classified according to their business model and the characteristics of their contractual cash flows. Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs.

##### Subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets have been classified financial assets at amortised cost. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

##### Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost and trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

# Notes to the financial statements

For the Year Ended 30 June 2019

## 4.1.2. Interest rates and maturities

	Interest rate %	Maturity	2019 \$'000	2018 \$'000
Cash at bank	0% - 1%	On demand	5,451	4,297
Cash at bank	1.8% - 2.22%	On demand	40,000	14,509
Short term deposits	0% - 1.25%	Less than 3 months	392	373
			<u>45,843</u>	<u>19,179</u>

The Group holds \$392,000 (2018: \$373,000) on deposit as collateral for lease and banking facility obligations.

## 4.2. Borrowings and other financial liabilities

### 4.2.1. Accounting policies

#### Financial liabilities and equity

##### Classification as debt or equity

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.

##### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the entity's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the entity's own equity instruments.

#### Financial liabilities

##### Financial liabilities at FVTPL

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in profit or loss.

##### 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.

##### Borrowing costs

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

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

# Notes to the financial statements

For the Year Ended 30 June 2019

## 4.2.2. Borrowings – interest rates and maturity

	<u>Interest rate %</u>	<u>Maturity</u>	<u>2019</u> <u>\$'000</u>	<u>2018</u> <u>\$'000</u>
<b>Current borrowings</b>				
<i>Unsecured</i>				
Insurance premium funding	9.6%	August 2019	41	-
Convertible notes	10.0%	May 2020	73,991	-
Convertible loan facility	5.5%	June 2019	-	22,243
			<u>74,032</u>	<u>22,243</u>
<b>Non-current borrowings</b>				
<i>Unsecured</i>				
Loan	6.0%	June 2021	7,500	-
Convertible loan facility	10.0%	June 2021	18,000	-
			<u>25,500</u>	<u>-</u>

### Convertible notes

The Group issued \$73.4m of convertible notes in May 2019. The convertible notes automatically convert to equity in the event of Carbon Revolution Limited listing on the ASX raising no less than \$25 million or in the circumstance of an Exit event, otherwise they have a maturity date of May 2020. The PIK interest calculated at 10% is accrued within the convertible notes balance above. Any accrued but unpaid interest converts to equity on an IPO event.

### Convertible loan facility

The Group has issued a convertible loan facility to Ronal AG, a related party, which is due for repayment on 30 June 2021. The interest rate was increased from 5.5% to 10.0% on 9 April 2019. Under the terms of the facility agreement, the loan could convert into ordinary shares at the discretion of the holder in the event of an IPO, at the share price of the greater of \$3.50 or a 20% discount to the IPO price or the most recent capital raising price. A partial repayment of \$5 million is required on demand where capital raising proceeds are equal to or exceed \$40 million or the State of Victoria sells, transfers or the beneficial ownership changes by 20% or more in respect of the State of Victoria's interest in the Group. Interest payable on the convertible loan facility is included in payables and is paid quarterly. The interest on the facility is subject to 10% withholding tax.

## 4.2.3. Financial liabilities at fair value through profit or loss

	<u>2019</u> <u>\$'000</u>	<u>2018</u> <u>\$'000</u>
Convertible notes	73,991	-
Convertible loan facility conversion rights	-	1,928

In May 2019, the Group entered into convertible notes agreements which contain mandatory conversion into shares in the event of on an ASX raising no less than \$25 million or an exit event. The convertible notes is carried at fair value through profit or loss, refer to note 3.8.

# Notes to the financial statements

For the Year Ended 30 June 2019

## 4.2.4. Changes in liabilities arising from financing activities

	Opening balance \$'000	Payments \$'000	Interest \$'000	Received \$'000	Fair value movement \$'000	Closing balance \$'000
<b>2019</b>						
Insurance premium funding	-	(169)	8	202	-	41
Loan	-	-	-	7,500	-	7,500
Convertible notes*	-	-	-	73,368	623	73,991
Convertible loan facility	22,243	(6,265)	1,265	-	757	18,000
Convertible loan facility conversion rights	1,928	-	-	-	(1,928)	-
	24,171	(6,434)	1,273	81,070	(548)	99,532
<b>2018</b>						
Finance leases	75	(78)	3	-	-	-
Convertible loan facility	22,150	(1,265)	1,265	-	93	22,243
Funds received for share transfer process	1,788	(1,788)	-	-	-	-
Convertible loan facility conversion rights	1,356	-	-	-	572	1,928
	25,369	(3,131)	1,268	-	666	24,171

\*The fair value movement in the convertible notes relates to the relevant proportion of the non-cash PIK interest embedded in the instrument.

## 4.3. Financial risk management

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

### 4.3.1. Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates is not significant because the convertible notes and convertible loan facility are both at a fixed 10.0% interest rate. The Group does not currently hedge its exposure to interest rate fluctuations due to the low level of exposure.

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

	Variable interest rate		Fixed interest rate		Total	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<i>Financial assets</i>						
Cash	45,451	18,806	-	-	45,451	18,806
Short term deposits	-	-	392	373	392	373
Total financial assets	45,451	18,806	392	373	45,843	19,179
<i>Financial liabilities</i>						
Insurance premium funding	-	-	41	-	41	-
Convertible notes	-	-	73,991	-	73,991	-
Loan	-	-	7,500	-	7,500	-
Convertible loan facility	-	-	18,000	22,243	18,000	22,243
Total financial liabilities	-	-	99,532	22,243	99,532	22,243



# Notes to the financial statements

For the Year Ended 30 June 2019

## 4.3.2. Foreign currency risk

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

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

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

## 4.3.3. Credit risk

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

### Cash and cash equivalents

The Group held cash and cash equivalents of \$45.8 million at 30 June 2019 (30 June 2018: \$19.2 million). The credit risk associated with cash and cash equivalents is considered as minimal as the cash and cash equivalents are held with reputable financial institutions in Australia.

### Receivables

The concentrated nature of receivables with only a few customers enables that customer credit risk be assessed using the simplified approach when estimating the expected credit losses. 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. The maximum exposure to credit risk at the reporting date is the carrying value of receivables. The Group does not hold collateral as security.

## 4.3.4. Liquidity risk

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

### Maturity analysis

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

	On demand \$'000	< 3 months \$'000	3-12 months \$'000	1-5 years \$'000	> 5 years \$'000	Total \$'000
<b>2019</b>						
Insurance premium funding	-	-	41	-	-	41
Convertible notes	-	-	73,991	-	-	73,991
Loan	-	-	-	7,500	-	7,500
Convertible loan facility	-	-	-	18,000	-	18,000
	-	-	74,032	25,500	-	99,532
<b>2018</b>						
Convertible loan facility	-	-	22,243	-	-	22,243
	-	-	22,243	-	-	22,243

## 4.3.5. Fair value risk

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

# Notes to the financial statements

For the Year Ended 30 June 2019

## 4.4. Leasing

### 4.4.1. Accounting policies

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

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

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

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

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

### 4.4.2. Finance leases

The Group had no finance leases as at 30 June 2019 (2018: nil).

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

### 4.4.3. Operating leases

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

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

	2019 \$'000	2018 \$'000
Within one year	814	772
After one year but not later than five years	3,425	3,346
More than five years	4,090	4,710
	<u>8,329</u>	<u>8,828</u>

## 4.5. Contributed equity

	2019 Ordinary shares	2019 \$'000	2018 Ordinary shares	2018 \$'000
Balance at 1 July	50,869,000	75,814	50,854	75,798
Share-based payments	23,598	83	15	53
Other	-	-	-	(37)
Share split – June 2018	-	-	50,818,131	-
Balance at 30 June	<u>50,892,598</u>	<u>75,897</u>	<u>50,869,000</u>	<u>75,814</u>

# Notes to the financial statements

For the Year Ended 30 June 2019

## Ordinary shares

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

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

During the financial year ended 30 June 2019, the Company did not pay a dividend (30 June 2018: \$nil).

## 4.6. Reserves

### 4.6.1. Share buy-back reserve

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

	2019 \$'000	2018 \$'000
Opening balance	311	311
Movement during the year	-	-
Closing balance	311	311

### 4.6.2. Foreign currency translation reserve

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

	2019 \$'000	2018 \$'000
Opening balance	72	26
Movement during the year	94	46
Closing balance	166	72

## 4.7. Share-based payment arrangements

### 4.7.1. Accounting policies

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

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

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

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

# Notes to the financial statements

For the Year Ended 30 June 2019

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

## 4.7.2. Employee share plan

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

- a) Elapse of 3 years from the date of grant; or
- b) Listing of the Company's shares on the ASX or earlier release of exercise restrictions by the board.

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

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

	<u>2019</u>	<u>2018</u>
Grant date	June 2019	June 2018
Number of employees granted shares	110	83
Value of shares granted per employee (on FTE and length of service pro-rata basis)	\$1,000	\$1,000

## 4.7.3. Employee share investment rights plan

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

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

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

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

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

At 30 June 2019, no instruments had been issued under the SIR plan.

## 4.7.4. Executive option plan

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

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

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

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

At 30 June 2019, no instruments had been issued under the executive option plan.

# Notes to the financial statements

For the Year Ended 30 June 2019

## Note 5: Other Notes

### 5.1. Related party disclosures

#### 5.1.1. Information about subsidiaries

The table below lists the controlled entities of the Group.

Name	Principal activities	Country of incorporation	% equity interest	
			2018	2019
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	N/A	100

#### 5.1.2. Deed of Cross Guarantee

Carbon Revolution Limited and Carbon Revolution Operations Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed dated 25 June 2019, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Corporations 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 2019:

	<b>2019</b>
	<b>\$'000</b>
Sale of wheels	13,787
Engineering services	870
Sale of tooling	361
<b>Revenue</b>	<b>15,018</b>
Cost of goods sold	(22,499)
<b>Gross margin</b>	<b>(7,481)</b>
Other income	5,034
Operational expenses	(3,034)
Research and development	(4,490)
Administrative expenses	(6,377)
Marketing expenses	(1,431)
Capital raising transaction costs	(7,684)
Borrowing costs	(2,154)
Gain/(loss) on revaluation of financial instruments	548
Impairment of inter-company balances	(241)
<b>Loss before income tax expense</b>	<b>(27,310)</b>
Income tax expense	-
<b>Loss for the year after income tax</b>	<b>(27,310)</b>
<b>Other comprehensive income</b>	<b>-</b>
<b>Total comprehensive loss for the year, net of tax</b>	<b>(27,310)</b>

# Notes to the financial statements

For the Year Ended 30 June 2019

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Refer below for the statement of financial position for the parties to the deed of cross guarantee as at 30 June 2019:

	<b>30 June 2019</b>
	<b>\$'000</b>
<b>Current assets</b>	
Cash and cash equivalents	45,706
Receivables	9,092
Inventories	9,503
Other current assets	321
<b>Total current assets</b>	<b>64,622</b>
<b>Non-current assets</b>	
Property, plant and equipment	31,536
Intangible assets	7,886
<b>Total non-current assets</b>	<b>39,422</b>
<b>Total assets</b>	<b>104,044</b>
<b>Current liabilities</b>	
Payables	11,718
Borrowings	74,032
Deferred income	608
Provisions	2,521
<b>Total current liabilities</b>	<b>88,879</b>
<b>Non-current liabilities</b>	
Borrowings	25,500
Deferred income	3,160
Provisions	180
<b>Total non-current liabilities</b>	<b>28,840</b>
<b>Total liabilities</b>	<b>117,719</b>
<b>Net liabilities</b>	<b>(13,675)</b>
<b>Deficiency in equity</b>	
Contributed equity	75,897
Reserves	(311)
Accumulated losses	(89,261)
<b>Total deficiency in equity</b>	<b>(13,675)</b>

# Notes to the financial statements

For the Year Ended 30 June 2019

## 5.1.3. Key management personnel compensations

	2019 \$	2018 \$
<b>Compensation by category</b>		
Short-term employment benefits	1,245,376	2,513,757
Post-employment benefits	79,682	110,616
Other long-term employment benefits	-	-
Share based payments	200,000	52,500
Other benefits	-	-
	<u>1,525,058</u>	<u>2,676,873</u>

## 5.1.4. Transactions with other related parties

### Convertible notes

Five directors participated in the convertible notes issue in May 2019 with a combined value of \$375,000.

### Convertible loan facility

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

### Director services

Ronal AG provided the services of two directors on the board until 17 September 2018. Fees incurred were \$25,667 (2018: \$120,000).

## 5.2. Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2019 the parent entity of the Group was Carbon Revolution Limited. The parent entity applied the same accounting policies as the Group.

	2019 \$'000	2018 \$'000
<b>Results of parent entity</b>		
Loss for the year	27,307	51,915
Other comprehensive loss	-	-
Total comprehensive loss for the year	<u>27,307</u>	<u>51,915</u>
<b>Financial position for the parent entity at year end</b>		
Current assets	49,471	22,463
Total assets	89,209	39,385
Current liabilities	(78,118)	(24,571)
Total liabilities	(102,618)	(25,571)
<b>Total equity of the parent company comprising of</b>		
Contributed equity	75,897	75,814
Reserves	(311)	(311)
Accumulated losses	(88,995)	(61,689)
Total equity	<u>(13,409)</u>	<u>13,814</u>

# Notes to the financial statements

For the Year Ended 30 June 2019

## 5.3. Auditor's remuneration

The auditor of the Group for the year ended 30 June 2019 is Deloitte (30 June 2018: Deloitte).

	2019	2018
	\$	\$
<b>Audit Services</b>		
Audit and review of the financial report	75,000	35,000
<b>Other Services</b>		
Accounting advice and preparation of financial statements	-	3,000
Tax compliance	-	14,280
Tax advice and compliance – research and development offsets and rulings		80,275
Capital raising – finance vendor due diligence	348,270	-
	<u>423,270</u>	<u>132,555</u>

## 5.4. Accounting standards issued but not yet effective at 30 June 2019

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

Reference	Title	Application date of Standard	Application date for the Group	Applicability to the Group
AASB 16	<i>Leases</i>	1 January 2019	1 July 2019	Refer below
AASB 17	<i>Insurance Contracts</i>	1 January 2021	1 July 2021	Not applicable
AASB Interpretation 23	<i>Uncertainty over Income Tax Treatment</i>	1 January 2019	1 July 2019	Refer below
AASB 2018-1	<i>Amendments – Annual Improvements 2015-2017 Cycle</i>	1 January 2019	1 July 2019	Applicable

### AASB 16 Leases

The key features of AASB 16 are as follows:

#### **Lessee Accounting**

- Lessees are required to recognise assets and liabilities for all leases on balance sheet with a term of more than 12 months, unless the underlying asset is of low value.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
- AASB 16 contains disclosure requirements for lessees.

#### **Lessor Accounting**

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



# Notes to the financial statements

For the Year Ended 30 June 2019

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## Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to AASB 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with AASB 17 and Interpretation 4 will continue to apply to those leases entered or modified before 1 July 2019.

The Group will apply the definition of a lease guidance set out in AASB 16 to all lease contracts entered into or modified on or after 1 July 2019. In preparation for the first-time application of AASB 16, the Group has carried out an implementation project.

## Impact on the Group

AASB 16 will change how the Group accounts for leases previously classified as operating leases under AASB 17, which were off balance sheet.

On initial measurement of AASB 16, for all leases (except noted below), the Group expects to:

- a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss; and
- c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group will opt to recognise a lease expense on a straight-line basis as permitted by AASB 16.

As at 30 June 2019, the Group has non-cancellable operating lease commitments for which it will recognise a right for use asset of \$10.243 million and a correspondence lease liability of \$10.607 million. The impact of the adoption of AASB 16 will be \$0.364 million adjustment to opening retained earnings.

## AASB Interpretation 23 *Uncertainty over Income Tax Treatments*

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

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

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

## Note 6: Unrecognised Items

### 6.1. Guarantees

The Group has entered into lease rental guarantees with a face value of \$271,763 (30 June 2018: \$120,000).

### 6.2. Capital commitments

The Group has capital commitments of \$2.688 million for manufacturing equipment as at 30 June 2019.

### 6.3. Lease equipment commitments

The Group has entered into a lease with Oerlikon Metco for manufacturing equipment. The lease commences in July 2019 for 1 year with an option to purchase the equipment at the end of the period. The base rental commitment is \$0.324 million for the lease term with a purchase option of \$0.948 million.

### 6.4. Contingent liabilities

The Group has no contingent liabilities as at 30 June 2019.

## Note 7: Subsequent Events

### 7.1. Subsequent events

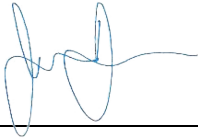
There have been no events subsequent to 30 June 2019.

# Directors' Declaration

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

In the opinion of the directors:

- (a) the financial statements and notes of Carbon Revolution Limited for the financial year ended 30 June 2019 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 2019 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



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Chair

Geelong

15 August 2019

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

### *Opinion*

We have audited the financial report of Carbon Revolution Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### *Basis for Opinion*

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Group, 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*

Without modifying our opinion, we draw your attention to Note 1.3 in the financial report, which indicates that the company incurred a net loss of \$27,212 thousand during the year ended 30 June 2019 and, as of this date the Group's current liabilities exceeded its current assets by \$23,991 thousand. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

## *Other Information*

The Directors are responsible for the other information. The other information comprises the information included in the directors' declaration, 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 are responsible for the preparation of the financial report that gives a true and fair view in accordance with the 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*

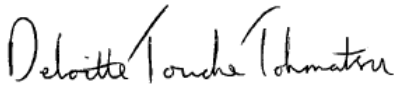
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that 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:

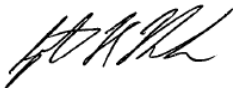
- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a 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.

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



DELOITTE TOUCHE TOHMATSU



**Stephen Roche**

Partner

Chartered Accountants

Melbourne, 15 August 2019