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CARBON REVOLUTION LIMITED
(ASX: CBR)

ASX Announcement

22 October 2020

CARBON REVOLUTION Q1 FY21 QUARTERLY ACTIVITIES REPORT & APPENDIX 4C (UNAUDITED)

Geelong, Australia, 22 October 2020: Geelong-based advanced manufacturer Carbon Revolution Limited (ASX:CBR), whose lightweight carbon fibre wheels are used on some of the world's best cars, is pleased to provide a business update for the quarter ended 30 September 2020 (Q1 FY21).

Q1 FY21 Highlights (unaudited)

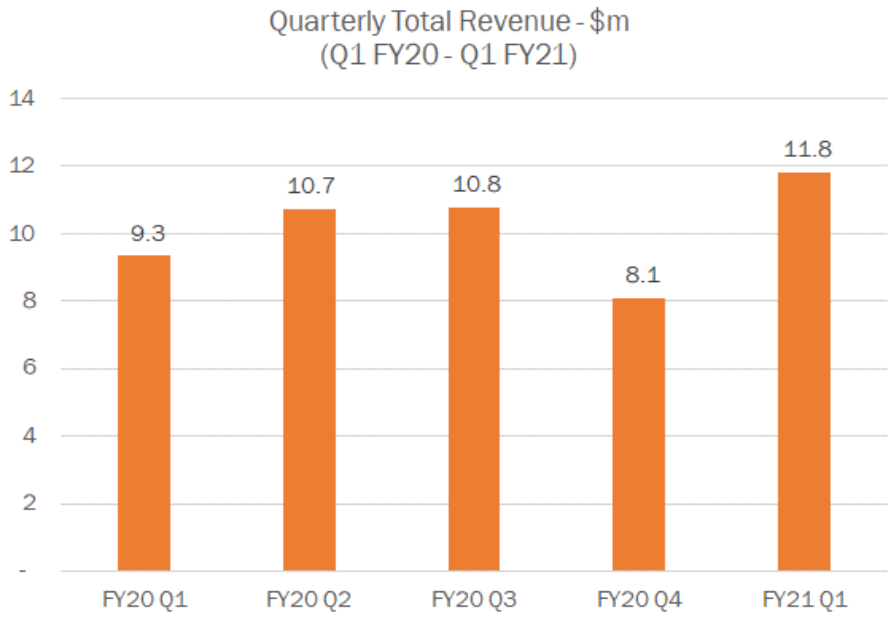
- Revenue for the quarter was $11.8m, a 26.3% increase from Q1 FY20 and strong sales growth is expected in FY21.
- Commercialisation of our new "fascia" technology commenced with initial customer approval in the quarter and first deliveries expected in Q2 FY21.
- Upgrades completed to the high-pressure moulding equipment and installation of a new automated face layup line. The business now has sufficient moulding capacity for its contracted programs (both announced and unannounced).
- Cash balance at the end of the quarter was $19.6m and the business is funded for its FY21 operational goals. We expect that for the remaining three quarters of FY21 net cashflow from operating activities will be positive.

Revenue Growth

Whilst the quarter was impacted by COVID-19 related disruptions, quarterly recognised revenue grew to $11.8m. This represents a 45.9% increase on Q4 FY20 and a 26.3% increase from the previous corresponding period of Q1 FY20. Quarterly wheels sold were 4,425, an increase of 29.1% on Q4 FY20 and 34.0% from the previous corresponding period of Q1 FY20.

As announced on 8 July 2020, the company's first half FY21 sales to one OEM are being negatively impacted by issues related to COVID-19. This customer also moved from airfreight to sea freight during Q4 FY20 meaning $4.5m of revenue was recognised this quarter from wheels previously in transit while $0.9m of wheels remain in transit at the end of this quarter.

There was $0.2m in engineering services and tooling revenue for the quarter. Engineering services and tooling revenue will remain variable from quarter to quarter.



There is strong engagement with both existing and new customers on business development activities, with discussions underway on a range of programs from smaller, performance-oriented programs through to much larger programs. Larger programs are expected to use the industrialised Mega-line manufacturing process.

The table below summarises the existing program position. Additionally, the first new painted wheel product is being marketed by Ford for the GT500 Handling Package. Discussions are underway to secure additional painted wheel program extensions to assist in reducing work in progress levels ahead of the full introduction of our new "fascia" technology across all current programs.

Stage of Program Lifecycle		Number of Programs
Awarded programs in production during Q1 FY21		6
Programs in development	Awarded	5
	Under engineering order	1
Programs entering run out during FY21		*3*
Awarded programs planned to enter production in FY21		*2*

Operational Progress

The key operational focus is on implementing the new fascia technology and reducing inventory through driving wheel finishing activities whilst temporarily reducing wheel moulding rate.

The new fascia technology is progressing well, with customer approval for the first program achieved during Q1 FY21 and first deliveries set to commence in Q2 FY21. Implementation of this technology is also now moving to other programs. This technology dramatically improves the conversion of moulded wheels to sold wheels and, in turn, drives a significant reduction in labour cost per wheel. This improves conversion of moulded wheels to finished wheels and is a key contributor to the targeted reductions in wheel inventory. Overall wheel inventory reduced by almost 1,600 wheels in the quarter (including a reduction of wheels in transit) with significant further reductions expected throughout the remainder of the financial year. In conjunction with the COVID-19 related demand reduction in FY21, this focus on inventory reduction meant the wheel moulding rate moderated throughout the quarter, with 3,237 wheels moulded during Q1 FY21.

Other research and development activities progressed well in the quarter on both customer programs and technology development. In particular, the development of the Premium SUV

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program completed its virtual engineering activities, including sign off by the customer on design, and tooling manufacture is now underway.

First quarter industrialisation activity, which delivers new capacity and allows for the reduction in wheel cost, was focused on completing and commissioning capacity expansion equipment. The following was installed during the quarter:

- Additional high-pressure moulding capacity, taking the total number of high-pressure moulding stations to four and delivering a cumulative high-pressure moulding equipment capacity of up to 60,000 wheels per annum. This is sufficient capacity for contracted programs (both announced and unannounced) unless there is significant further expansion in those programs due to customer demand.
- Automated face layup conveyor line – transitioning this key layup process to physical, rather than virtual conveyors, and with additional automation of manual processes.
- Multi-head tailored fibre placement machine – adding significant additional capacity and driving labour savings through greater levels of automation.
- Additional machining centre – driving significant efficiency and capacity in machining processes.

Transformational activities are also being undertaken on processes that support our core business, including implementation of leading Industry 4.0 activities and the automation of key support function processes. For example, an ERP is currently being implemented with best of breed supporting integration including material requirements planning, accounts payable automation, time and attendance, business intelligence, payroll and HRIS systems. These activities will enable the support, management and reporting functions to efficiently scale as production volume increases over the coming years.

On the 12th of October 2020, Jo Markham joined the company as Director of Customer Excellence. Jo will be an important part of the Carbon Revolution executive team as we continue to grow the business. Jo adds significant depth and breadth of global automotive experience from General Motors and Fiat Chrysler spanning product development, manufacturing, customer experience, sales, logistics and warehousing. Jo has a deep technical and quality background whilst also having led successful customer experience transformations.

Cash Position

Net Cash outflow of $14.2m for the quarter included:

- Net cash outflow from operating activities of $5.1m as compared to $7.6m in Q4 FY20, with a positive operating cashflow recorded in the month of September. The improved operating cashflow was driven by a reduction in product manufacturing costs due to a strong focus on finishing wheels in work in progress. This strategy will continue in Q2 FY21 and leads to reducing both moulding rate and inventory levels. Government grants in Q1 FY21 included a JobKeeper payment for $1.7m, whilst Q4 FY20 included a $5.9m R&D receipt.
- Net cashflow used in investing activities of $8.8m as compared to $9.2m in Q4 FY20. Investing activities cashflow consists primarily of investment in production assets and research and development (classified in the Appendix 4C as “other non-current assets”). The level of investment in production assets was high at $7.0m reflecting the significant level of equipment commissioning during this and the previous quarter. The level of activity on new equipment commissioning has now reduced significantly as the required production capacity is in place.
- Net cash outflow from financing activities of $0.3m.

Final documentation is being completed for the $13m three-year term debt facility with Export Finance Australia (EFA). This facility will refinance the existing $13m term loan currently held

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with Ronal AG which is due for repayment by 30 June 2021. The EFA loan will be a $13m three-year term debt facility which will amortise over the three years and the interest rate is favourable to the existing term loan. Execution and drawdown are expected to occur in Q2 FY21. Working capital facilities to augment this term loan, and support future growth, are currently being explored with a number of financiers.

The company's cash balance is $19.6m. The business is funded for its FY21 operational goals.

During the quarter, payments were made to related parties in the form of Directors Fees.

Outlook

The business continues to monitor the local and global impacts and risk related to COVID-19. On the basis of all currently available information, the company expects to deliver strong sales growth in FY21. The company is continuing to invest strongly in new customer programs and the long-term demand for the technology is strong.

As announced in early July, it became apparent that demand by one OEM had been impacted by COVID-19, which will impact revenue during the first half of FY21. Although some of this impact has been realised in Q1 FY21, the quarter's revenue was positively impacted by wheels in transit at 30 June being recognised as revenue in the quarter. There will be a greater impact to revenue in Q2 FY21 before wheel sales and growth returns to expected levels in Q3 and Q4 of FY21.

The business is funded for its FY21 operational goals. In addition to the benefits of reducing the cost per wheel progressively during FY21, cash flow is expected to be positively impacted by:

- Global supply chains have stabilised, therefore the COVID-19 related raw material safety stock buffer held in inventory will most likely be able to be released throughout FY21. The business expects an almost $2m benefit from reduction in raw materials and consumables throughout the year.
- Moulded wheel inventory will continue to reduce during FY21 due to both the new fascia technology allowing moulded wheels to be finished and selling wheels through painted programs. Wheel inventory has reduced by almost 1,600 wheels in the financial year to date and is expected to reduce by at least a further 2,000 wheels in the remainder of FY21.
- The expansion capital requirements will reduce in the coming months as the current industrialisation assets are commissioned and the business has sufficient capacity for awarded programs. As planned, over half of the year's cash outflow for equipment capital expenditure occurred in Q1 FY21.
- Research and development reduced from previous highs to more normal levels during the quarter as key fascia R&D has been completed.
- The Federal Government JobKeeper package is expected to support a proportion of wages while the Company remains eligible under the JobKeeper scheme.

Cash balance at the end of the quarter was $19.6m and the business is funded for its FY21 operational goals. We expect that for the remaining three quarters of FY21 net cashflow from operating activities will be positive.

ABOUT CARBON REVOLUTION

Carbon Revolution is an Australian company, which has successfully innovated, commercialised and industrialised the supply of carbon fibre wheels to the global automotive industry. The Company has progressed from single prototypes to designing and manufacturing high-performing wheels for some of the fastest street cars and most prestigious brands in the world. Carbon

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Revolution continues to innovate and supply its lightweight wheel technology to automotive manufacturers around the world.

Performance is everything. Efficiency is everything else.

For more information, visit carbonrev.com

FORWARD-LOOKING STATEMENTS

This ASX release includes certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties. Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Carbon Revolution. These factors may cause actual results to differ materially from those expressed in the statements contained in this announcement.

Approved for release by the Board of Directors of Carbon Revolution Limited.

INVESTOR CONTACT

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INVESTOR BRIEFING

The accompanying investor and analyst briefing will be at 9.30am (AEDT) on Thursday 22nd October 2020. To pre-register for this event please use the following link: https://carbonrev.zoom.us/webinar/register/WN_rBup8-OcQaup2S6CW6UbbA

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

A recording of the briefing will be made available on the Carbon Revolution Investor Centre website: https://investors.carbonrev.com/Investor-Centre/

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity	
Carbon Revolution Ltd	
ABN	**Quarter ended ("current quarter")**
96 128 274 653	30 September 2020

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	13,107	13,107
1.2	Payments for:		
	(a) research and development	(929)	(929)
	(b) product manufacturing and operating costs	(14,740)	(14,740)
	(c) advertising and marketing	(43)	(43)
	(d) leased assets	(81)	(81)
	(e) staff costs	(3,275)	(3,275)
	(f) administration and corporate costs	(848)	(848)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	43	43
1.5	Interest and other costs of finance paid	(406)	(406)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	2,110	2,110
1.8	Other (provide details if material)	-	-
1.9	**Net cash from / (used in) operating activities**	**(5,062)**	**(5,062)**

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses (see item 10)		
	(c) property, plant and equipment	(6,959)	(6,959)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	(1,868)	(1,868)
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**(8,828)**	**(8,828)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities, or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
3.9	Other (provide details if material)	(310)	(310)
3.10	**Net cash from / (used in) financing activities**	**(310)**	**(310)**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	33,861	33,861
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(5,062)	(5,062)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(8,828)	(8,828)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(310)	(310)
4.5	Effect of movement in exchange rates on cash held	(27)	(27)
4.6	**Cash and cash equivalents at end of period**	**19,635**	**19,635**

5.	**Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	**Current quarter $A'000**	**Previous quarter $A'000**
5.1	Bank balances	14,635	8,778
5.2	Call deposits	5,000	25,083
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**19,635**	**33,861**

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6.	Payments to related parties of the entity and their associates	Current quarter $A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	314
6.2	Aggregate amount of payments to related parties and their associates included in item 2	0

Description & explanation of payments above:

Comprises Non-Executive and Executive Directors fees inclusive of superannuation for the quarter. No other payments made to related parties or their associates.

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7.	Financing facilities available *Add notes as necessary for an understanding of the position*	Total Facility amount at quarter end $A'000	Amount drawn at quarter end $A'000
7.1	Loan facilities	18,500	18,500
7.2	Credit standby arrangements	-	-
7.3	Other – Financed Insurance Premiums	-	-
7.4	Total financing facilities	18,500	18,500
7.5	Unused financing facilities available at quarter end	-	-

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well

Loan facilities totally $18.5m comprises:

- Secured loan with a shareholder, Ronal AG of $13.0m at an interest rate 10% per annum, interest repayable quarterly. Principal repayable 30 June 2021.

- Secured grant advance from the State of Victoria of $5.5m – fixed facility fee of $37,500 per month. Repayable 30 June 2021, however it is possible at the discretion of the State of Victoria for the Company to retain the whole or part of the early advance used for the Project and to be potentially fully set-off against grant moneys which become due to the Company. The next grant offset of $2m is expected in Q2 FY21.

Final documentation is being completed for the $13m three-year term debt facility with Export Finance Australia (EFA). This facility will refinance the existing $13m term loan currently held with Ronal AG which is due for repayment by 30 June 2021. The EFA loan will be a $13m three-year term debt facility which will amortise over the three years and the interest rate is favourable to the existing term loan. Execution and drawdown are expected to occur in Q2 FY21.

In January 2020 the company entered into insurance premium funding arrangements for $881,320 (including $13,281 interest) to be repaid in fixed monthly instalments over 10 months.

There are also two lease agreements in place, being:

- Monthly rental of the production facility in Waurn Ponds (10 year lease with current monthly lease payments of $68,104)

- Monthly rental of production equipment (12 month lease with current monthly lease payments of $26,959)

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8.	Estimated cash available for future operating activities	$A'000
8.1	Net cash from/(used in) operating activities (item 1.9)	(5,062)
8.2	Cash and cash equivalents at quarter end (item 4.6)	19,635
8.3	Unused finance facilities available at quarter end	-
8.4	Total available funding (item 8.2 + item 8.3)	19,635
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.88
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
1.	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not? Not applicable	
2.	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful? Not applicable	
3.	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis? Not applicable	

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
2 This statement gives a true and fair view of the matters disclosed.

Date: 22 October 2020

Authorised by: The Board of Carbon Revolution Ltd

Notes

1. The quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose

additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here "By the Board". If it has been authorised for release to the market by a committee of your Board of Directors, you can insert here "By the [name of the board committee - eg Audit and Risk Committee". If it has been authorised for release to the market by a disclosure committee, you can insert here "By the Disclosure Committee"
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with Recommendation 4.2 of the ASX Corporate Governance Council, Corporate Governance Principles and Recommendations, the Board should have received a declaration from its CEO and CFO that in their opinion, the financial records of the entity have been properly maintained, that the report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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