

**Carbon Revolution Limited**

Geelong Technology Precinct
75 Pigdons Road
Waurin Ponds, 3216
Australia

ABN: 96 128 274 653



Automotive
IATF 16949



Quality
ISO 9001



Environment
ISO 14001



Carbon Revolution (ASX code: CBR) FY21 FULL YEAR RESULTS

Geelong, Australia, Tuesday 24 August 2021, in accordance with ASX Listing Rules, please find attached Carbon Revolution's Appendix 4E and Annual Report for the financial year ended 30 June 2021.

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

- FY21 Results Media Release
- FY21 Investor Presentation
- FY21 Corporate Governance Statement and Appendix 4G

Results Conference Call details:

Date : Tuesday, 24 August 2021 (today)

Time : 9.30 am (AET) today

Register at : https://carbonrev.zoom.us/webinar/register/WN_XWNVqYfxRd-2KazXZimTMA

A recording of the briefing will be made available on the Carbon Revolution Investor Centre website shortly after the briefing.

Authorised for release by the Board of Carbon Revolution Limited

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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 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

Appendix 4E

Preliminary financial report for the year ended 30 June 2021 as required by ASX listing rule 4.3A

For the year ended 30 June 2021

(previous corresponding period (PCP) being the year ended 30 June 2020)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Statutory results

		% Change from PCP	\$M
Total revenue from ordinary activities	Down	10% to	35
Profit after tax from ordinary activities (including significant items)	Up	72% to	(31)
Underlying profit after tax (excluding significant items)	Down	19% to	(31)

Dividend Information

No dividend was paid or declared for year ended 30 June 2021

Other information

Year ended 30 June	2021	2020
Net tangible assets per security	1.62	2.06

Additional information supporting the Appendix 4E disclosure requirements can be found in the Annual Report which contains the Directors' Report and the 30 June 2021 Financial Statements and accompanying notes

The report is based on the consolidated financial statements for the year ended 30 June 2021 which have been audited by Deloitte.

Carbon Revolution Limited
(ACN 128 274 653)



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2021
ANNUAL REPORT

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SECTION 1

KEY ACHIEVEMENTS FOR 2020-21



2 new programs commenced production and 4 new programs entered engineering and design



Technology platform strengthened through the development and roll-out of the Diamond Weave Technology



Phase 1 of Mega-line funding secured and project commenced



Significantly enhanced leadership capabilities through strategic appointments

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SECTION 2

LETTER FROM THE CHAIR AND THE CEO

Dear Shareholder

On behalf of the Directors of Carbon Revolution Limited, we are pleased to present our annual report for the financial year ending 30 June 2021 (FY21).

Carbon Revolution is an Australian technology company manufacturing advanced carbon fibre wheels. Our wheels are materially lighter, reduce road noise, have attractive aesthetics and deliver significant efficiency gains compared to steel and aluminium alternatives.

The efficiency gains and road noise reduction benefits translate into enhanced performance and increased fuel efficiency, or range enhancement for electric vehicles (EVs). Our wheels are currently available on cars made by Ford, Ferrari and Renault and we have contracts to supply wheels to a number of other car makers for future models. We are also working with the Australian Defence Force on the design of wheels for the CH-47 (Chinook) Helicopter as part of our expansion into the aerospace sector.

The past year has been a challenging one for the Company, as we were heavily impacted by issues related to the COVID-19 pandemic. Our FY21 revenue of \$34.9m was 10% below the previous year. Carbon Revolution reported a loss after tax of \$32.0m (FY20: loss \$114.0m). The Company's sales were negatively impacted in the first half of the year when one key customer was heavily affected by COVID-19, closed parts of its manufacturing and cancelled forecast purchases for approximately six months. We were further impacted in the second half when another key customer's forecast orders were cancelled due to an extended plant shutdown driven by the global semi-conductor chip shortage. Whilst there is ongoing uncertainty in global automotive supply chains, each of these customers have resumed production. A change in product sales mix, reduced production volumes and costs associated with finishing work in progress had a negative impact on gross margins during FY21.

While the operational issues were disappointing and difficult to manage, we are confident that our long-term growth prospects continue to be strong. During the year Ferrari launched two new cars that feature our carbon fibre wheels, the 296 GTB and the 812 Competizione. Carbon Revolution was recognised as a partner of Ferrari at the 812 Competizione launch. At the launch of the 296 GTB in June, Ferrari highlighted the potential of our technology when it said that "the carbon-fibre wheel option ... sets a whole new performance benchmark". These two wheel programs are now in production.

In addition, we were successful in securing formal agreements to initiate detailed design and engineering relating to four new wheel programs. These programs are expected to enter production in calendar year 2023 (CY2023) and CY2024. Importantly a significant proportion of these new programs involve higher volume platforms and are for electric vehicles with large wheel formats. They represent the next phase of the market's adoption of our wheel technology. We are excited to begin this next phase in our development as a company, at a time of transition by major OEMs (Original Equipment Manufacturers, or global car makers) towards an EV future. In this context we believe carbon fibre wheel technology will play an important role in enhancing EV platforms by providing increased vehicle range through efficiency, improved aerodynamics and improving noise, vibration and harshness.

The expected volumes for these four new programs underpinned our decision to invest in the development of Phase 1 of the Mega-line. In April, we raised \$95m in new equity primarily to fund the Phase 1 Mega-line expansion. The Mega-line is expected to provide a step change in production scale and economics that will enable the Company to deliver larger volume programs to a broader cross-section of the market.

We also took significant steps forward on other key industrialisation activities. The early part of the year included the commissioning of new industrialised equipment, delivering new capacity required for awarded but not yet announced programs. Key items included:

- Additional high-pressure moulding capacity, taking the total number of high-pressure moulding stations to four
- A new automated face layup conveyor line, which introduces new process automation and eliminates the manual movement of work in progress
- Additional multi-head tailored fibre placement machine, additional machining centre and a second thermal barrier coating cell
- The first 3rd generation automated rim layup machine (ARL3) was installed. This brings further automation and cycle time improvements to this key production step

These automated manufacturing processes are the key building blocks of the Mega-line technology. Phase 1 Mega-line orders for long lead time items have now been placed and our principal construction partner has been contracted. We expect assets to be constructed off site during the remainder of this calendar year and installation to commence from early CY2022.

We have strengthened our Company's technology platform during the year by completing the development and roll out of a key foundational technology called Diamond Weave Technology (previously known as "fascia"). This technology dramatically improves the first-time aesthetic quality of the wheels and, in turn, drives a significant improvement in part flow and a reduction in labour cost per wheel. We have applied for a patent for this technology which will add to the valuable intellectual property portfolio developed and owned by the Company. Research and development will continue to be a focus for us and is critical to the success of the Company. We are proud to have developed this technology here in Geelong.

The implementation of a new enterprise resource planning system, payroll, time in attendance and an integrated human resource management system were undertaken during the year. These transformational activities enable the support, management and reporting functions to efficiently scale as production volumes are expected to increase over the coming years.

We also strengthened our leadership capabilities to support our growth strategy – with a focus on operational delivery and enhancement of our OEM relationships. We welcomed Ron Collins as Vice President North America, Jon Smiles as Human Resources Director, Jo Markham as Director of Customer Excellence and Andrew Higginbotham as Director of Operations. They all join us after long careers with leading global OEMs.

The Company's key focus areas for the coming year are to deliver operational efficiencies in our current processes to lower our wheel cost, finalise the programs underpinning the Mega-line development and progress the Phase 1 Mega-line project in readiness for the first Phase 1 Mega-line programs, which are expected to enter production in CY2023. We will continue to develop long term growth opportunities with the goal of playing a major disruptive role in the automotive wheel industry in the longer term.

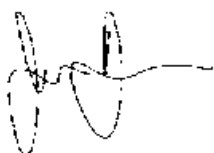
On behalf of the Board, we would like to thank each and every member of the Carbon Revolution team for their considerable efforts and achievements throughout the financial year, particularly in the face of the continued challenges of COVID-19. Carbon Revolution builds a unique and highly sophisticated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

We would like to thank Bruce Griffiths who stepped down from the Board in November for his eight years of leadership, guidance and mentoring as we moved from start up to commercialisation and our IPO. Peter Lewinsky also stepped down from the Board in July this year. We would like to thank Peter for the insight and guidance he provided, especially in respect to capital markets and in managing complex financial and operational issues from before our IPO and through our first 19 months as a listed company.

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

Finally, thank you to our fellow Carbon Revolution shareholders who have recognised the strategic growth opportunities ahead for the Company and invested to help us execute on our plans.

FY21 was a challenging 12 months, and there remains significant uncertainty in relation to the ongoing impacts of the COVID-19 pandemic on the global economy and automotive supply chains. However, we are excited about the year ahead and confident about the long-term potential of our technology and our business. We look forward to keeping you updated on our progress.



James Douglas

Chair

Geelong, 23 August 2021



Jake Dingle

CEO and Managing Director

Geelong, 23 August 2021

SECTION 3 DIRECTORS' REPORT

About Carbon Revolution

Carbon Revolution ("Carbon Revolution" or the "Company" or the "Group") was established in 2007 and is an Australian technology company manufacturing advanced carbon fibre wheels. We are the only company globally to have successfully developed and manufactured single piece carbon fibre automotive wheels to original equipment vehicle manufacturers (OEM) quality standards, with commercial adoption across several major OEMs' vehicle platforms.

Carbon Revolution's principal operations, which include its corporate office and manufacturing facilities, are located in Geelong, approximately 75 kilometres from Melbourne, Australia. The 10,000m² Geelong facility is quality accredited to international automotive supply standard IATF 16949. Carbon Revolution has a number of personnel in North America and Europe to service current and prospective customers. Since commencing production for its first OEM program for Ford in 2015, the Company has progressively increased production capacity in response to increasing demand from customers.

Business Model and Strategic Priorities


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

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

Our wheel technology has the capability to deliver stronger, more durable and lighter wheels to the automotive industry. Carbon fibre wheels deliver substantial weight savings (40% to 50%) compared to aluminium equivalents. Nearly a decade has passed since the development of Carbon Revolution's first carbon fibre automotive wheel. Over this time the performance and handling benefits of this efficiency technology have become well accepted and have led to adoption in the performance and premium/luxury vehicle categories by five OEMs including Ford, Ferrari, and Renault.

The automotive market is rapidly transitioning to Electric Vehicles. Carbon Revolution's carbon fibre wheel value proposition is uniquely suited to EVs and we believe carbon fibre wheel technology will play an important role in enhancing vehicle range through weight savings and improved aerodynamics. A significant proportion of wheels currently under development are for EV applications. Driving this expansion is an increased understanding of the very significant efficiency benefits of this lightweight technology and a greater acceptance of other benefits such as the superior durability and failure characteristics of carbon fibre composites.

As the adoption cycle matures, designers and engineers are beginning to fully embrace the unique design characteristics provided by carbon fibre allowing outcomes otherwise not easily achieved in aluminium. With this we are seeing changes such as aerodynamic styling and wheel diameters that are not as feasible in a steel or aluminium construction. This is further driving OEM adoption and category expansion. Additionally, the high material damping characteristics, increased stiffness and reduced mass of carbon fibre composites also provide a solution to another significant EV challenge – the reduction of transmitted road noise.



Our growth focus includes adding OEM wheel programs for EV and SUV models to complement our existing program portfolio of high-performance models. Carbon Revolution is driving the industrialisation of its production processes and is now constructing Phase 1 of the first of its Mega-lines. The Mega-line is expected to deliver a step change in production scale and economics that enable the Company to deliver large volume programs to a broader cross-section of the market. The first phase of this process is expected to deliver an additional circa 75,000 wheels of capacity. Phase 1 of the Mega-line is underpinned by formal agreements to initiate detailed design and engineering relating to four new OEM programs.

Carbon Revolution also aims to leverage its technology into adjacent industries, such as the aerospace and transportation sectors. We are currently working with the Australian Defence Force on the design of wheels for the CH-47 (Chinook) helicopter as part of our expansion into the aerospace sector.

We are committed to investing in, improving and growing our operations to position Carbon Revolution to continue to play a leading role in the design and development of carbon fibre wheel technology into the future, and maximising value and sustainable returns for its shareholders.

3.1 OPERATING AND FINANCIAL REVIEW

3.1.1 Wheel Program Portfolio

The Company is currently working on 13 programs, five in production and eight in the development phase, with four global OEMs. In addition, three production programs were completed during FY21. During the year the Company secured detailed design and engineering agreements relating to four new programs expected to enter production in CY2023 and CY2024, a significant proportion of which are for electric vehicles.

These four programs are in the design phase and volumes are estimated at circa 75,000 wheels per annum when they are all in full production. The expected volumes for these four new programs underpin the development of Phase 1 of the Mega-line. The Company's wheel programs include high-performance sport vehicles, premium SUV and pickup trucks and include a number of electric vehicles.

Our carbon fibre wheels are featured on two new Ferraris that were launched during the year. At the launch by Ferrari of the 296 GTB in June, Ferrari said

"the carbon-fibre wheel option, which is 8kg lighter than their forged counterpart, sets a whole new performance benchmark".

At the launch of the 812 Competizione Carbon Revolution was recognised by Ferrari as a partner. These two wheel programs, which have been under development, are now in production.

The status of the Company's programs is:

Stage of Program Lifecycle		Number of Programs ¹
Awarded programs in production during FY21		5
Programs in development	Awarded	3
	Under detailed design and engineering agreement	5
Total		13
Awarded programs planned to enter production in FY22		1
Programs expected to complete during FY22		0

¹ Programs vary in size and length and run out over different periods of time. The sales ramp and take rates of new programs entering production is difficult to predict.

3.1.2 Operations, Technology and Industrialisation

FY21 was a challenging year, where the business was significantly affected by a number of COVID-19 related impacts on its customers. These issues affected both sales and operations during the year.

The challenges experienced by our customers in developing new vehicles during the early stages of the pandemic resulted in the delayed introduction of a number of new programs that were in development. This led to a significant reduction in orders at the start of the financial year for one customer in particular. To mitigate the impact of this reduction in orders, a large reduction in headcount was undertaken and inventory levels were reduced (both raw materials and work in progress).

Production increased significantly during the second half, with sales momentum steadily lifting during the January through to early May period. However, sales in the final months of the financial year were negatively impacted by the effects of the global semi-conductor chip shortage on our largest production program. The customer recommenced production from the last week of July 2021. While creating operational challenges, this short-term production disruption has not affected Carbon Revolution's industrialisation program.

Orders for other programs increased gradually through the second half and final development activities were completed on the Ferrari 812 Competizione and 296 GTB which are now both in production.

The Company significantly enhanced its technology foundations during the year by completing the development and implementation of a key foundational technology called Diamond Weave Technology (previously known as "fascia"). This technology dramatically improves the first-time aesthetic quality of the wheels and, in turn, drives a significant improvement in part flow and reduction in labour cost per wheel. Implementation of this technology is now complete for all wheels in production, other than our smallest program for which implementation will be completed in the first half of FY22. A patent application for this technology is underway which, will add to the Company's valuable intellectual property portfolio. Research and development continue to be a focus and critical to the success of the Company.

Important industrialisation milestones were achieved during the year, including the installation of assets that will be key components of the Mega-line manufacturing process. These include:

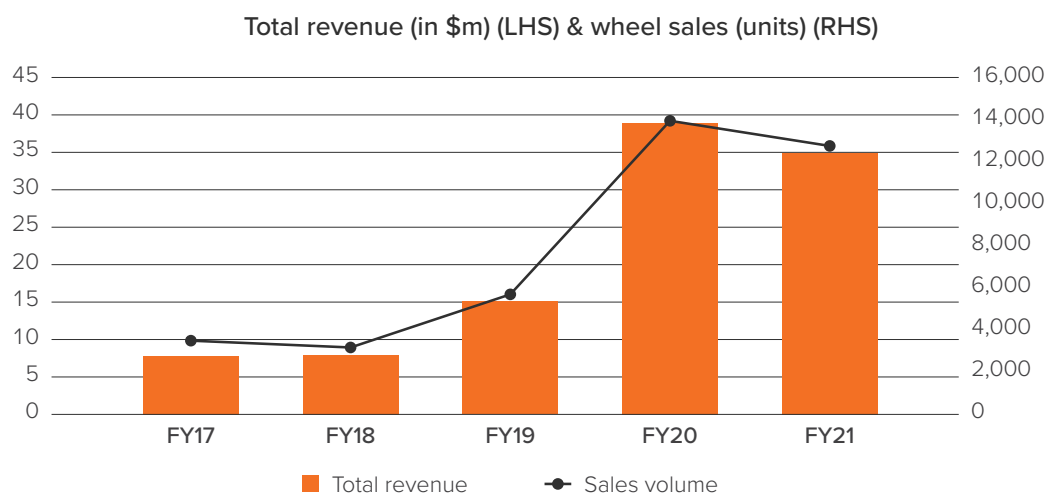
- Additional high-pressure moulding capacity, taking the total number of high-pressure moulding stations to four
- Introduction of automated face lay-up conveyor line – transitioning this key lay-up process to physical, rather than virtual conveyors including additional automation of some manual processes
- Integration of big data platform into the factory enabling immediate visualisation of factory data to discover trends and improve performance
- Implementation of vision inspection systems which use artificial intelligence (AI) to detect issues at the earliest point possible of the process
- Additional multi-head tailored fibre placement machine, additional machining centre and a second thermal barrier coating cell. All provide additional capacity which reduces reliance on suppliers and provides additional automation, reducing cost of production
- Commissioning of the first machine of the next generation rim layup and cutting machines. Third generation Automated Rim Lay-up (ARL3) technology further automates and increases throughput for the rim lay-up process

These automated manufacturing processes are key building blocks of the Mega-line technology. Further industrialisation activities were focused on Mega-line Phase 1 virtual design, detailed design and preparation for sourcing. The Mega-line will combine automated manufacturing processes with automated part flow and is expected to achieve step changes to both capacity and cost reductions.

During the year the Company successfully implemented a new enterprise resource planning system, an important foundational IT system for the business. The business also implemented new time in attendance, payroll and human resource information systems. These transformational activities will support the growth path of the Company and enable more efficient processes.

3.1.3 Revenue

The Company experienced a challenging business environment in FY21, where its customers were negatively impacted by COVID-19 and the global semi-conductor chip shortage. This resulted in a reduction in revenue of 10% from the prior year.



Wheel Sales

During FY21, revenue derived from wheel sales decreased 13% from FY20. Wheel sales were negatively impacted initially in the first half of the year when one customer cancelled forecast purchases for approximately six months due to COVID-19 impacts on their business, and then again later in the second half when another customer cancelled forecast orders due to an extended plant shutdown related to the global semi-conductor chip shortage. Whilst there is ongoing uncertainty in global automotive supply chains, each of these customers have resumed production.

The largest revenue wheel programs in FY21 were the Ford Mustang GT500, the Ford GT and in the second half the Ferrari SF90 Stradale. In the last quarter of FY21, Ferrari announced two new vehicles launched with the Company's wheels, the Ferrari 812 Competizione in May and the Ferrari 296 GTB in June. Those two programs have entered production at the end of the financial year.

Engineering Services and Tooling Revenue

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

3.1.4 Talent and Engagement

Carbon Revolution continues to develop a committed and diverse team capable of transforming the performance and sustainability of the world's vehicles. During the year we managed the size of our team down in the first half to accommodate the reduced production volumes arising from COVID-19-related issues while preserving our core skills in product development, engineering and operational capability. Headcount gradually increased later in the year in line with an increase in production and sales to finish the financial year with 426 FTEs.

Carbon Revolution's health and well-being program ("CARE") has been further developed throughout the year with a focus on mental health, in recognition of the challenges being experienced during the pandemic. The Company's commitment to people development is reflected in the appointment of a Human Resources Director to the Executive Team in March 2021.

The Company also strengthened its leadership capabilities during FY21, with a focus on operational delivery and enhancement of our OEM relationships. We welcomed Jo Markham as Director of Customer Excellence, Ron Collins as Vice President North America, and Andrew Higginbotham as Director of Operations, all of whom join us after long careers with leading global OEMs.

3.1.5 Financial Review

Historical consolidated performance

Consolidated Statement of Comprehensive Income	30-Jun-21 \$m	30-Jun-20 \$m	Change %
Sale of wheels	32.2	36.8	-12%
Engineering services & tooling	2.7	2.1	30%
Total revenue	34.9	38.9	-10%
Cost of goods sold	(49.2)	(50.5)	-3%
Gross loss	(14.3)	(11.6)	23%
% of total revenue	-41%	-30%	37%
SG&A	(20.1)	(13.0)	54%
Research and development	(6.5)	(4.8)	36%
Capital raising transaction costs	-	(1.4)	-100%
Total expenses	(26.6)	(19.2)	38%
% of total revenue	76%	49%	54%
Other income	10.4	6.2	68%
EBIT before losses related to the FY20 IPO	(30.5)	(24.6)	24%
Anti-dilutive shares issued on IPO	-	(35.8)	-100%
Gain/(loss) on revaluation of financial instruments	-	(51.4)	-100%
EBIT	(30.5)	(111.8)	-73%
Net interest expense	(1.5)	(2.2)	-30%
Loss before tax	(32.0)	(114.0)	-72%
Income tax expense	-	-	-
Loss after tax	(32.0)	(114.0)	-72%

Carbon Revolution reported a loss after tax of \$32.0m (FY20: loss \$114.0m). Key movements from the prior year include:

Sales revenue decreased by 10% to \$34.9m. Key items in these results include:

- Lower sales after significant reduction in demand as major customers were impacted by COVID-19 as well as the global semi-conductor chip shortage. Sales into Europe decreased by 46.9%, whereas sales into the US market increased by 22.6%
- Average price per wheel decreased by 4.4% to \$2,526 due primarily to changes in the sales mix
- Revenue from engineering services and tooling increased by 30% to \$2.7m in FY21 (FY20: \$2.1m), reflecting the work completed on development programs

Gross loss increased to \$14.3 m from \$11.6m in FY20.

Cost of goods sold ("COGS") per wheel in the first six months of \$4,011 reduced to \$3,281 in the second half, delivering COGS per wheel of \$3,647 for the full year. A richer mix of high-pressure wheels, the implementation of the new Diamond Weave Technology on the Company's largest selling wheel and stronger production volumes all positively contributed to a lower COGS per wheel in the second half of the financial year.

Selling, general and administration expenses increased by \$7.1m to \$20.1m. This increase reflects:

- Additional costs of a recently listed and growing company such as business insurances, worksafe, legal, IT systems and communications (including additional costs arising from being listed for the full financial year, compared to seven months of the prior year)
- The second-year incremental cost (including full year as a listed company versus seven months in the prior year) of equity incentive schemes typical of an ASX company (\$1.9m) and revaluation of share-based payments (\$0.9m). Both items are non-cash
- One-off costs related to enterprise resource planning implementation (\$0.8m) and an internal project which completed in the third quarter (\$1.5m)

The business continued to invest strongly in research and development (R&D) required to improve the product technology, material systems and to bring its production processes to full industrialisation. Accordingly, **R&D expenses** increased by 36% to \$6.5m along with the capitalisation of \$11.2m (FY20: \$12.0m) development costs.

This year has been a substantial year for the R&D team as a significant number of new programs were secured. The introduction of the customer excellence team supported this growth and provided the team with the opportunity to implement a new framework for a successful product launch. The team has successfully completed two new product launches during the year and is on track to deliver another in FY22.

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

Other income which includes \$6.8m of JobKeeper in the current financial year increased by 69% to \$10.5m. Excluding JobKeeper, grant income would have decreased by \$3.1m as the Company is no longer eligible for the R&D tax incentive refund (FY20: \$2.8m).

3.1.6 Cashflow

	2021 \$m	2020 \$m	Change \$
EBIT	(30.5)	(111.8)	81.3
Change in working capital and other	11.3	(11.3)	22.6
Net interest paid (excl convertible loan interest)	(1.5)	(2.2)	0.7
Non-cash losses related to IPO	-	87.2	(87.2)
Other non-cash items in EBIT	11.4	7.2	4.2
Net cash used in operating activities	(9.3)	(30.9)	21.6
Capital expenditure	(12.6)	(14.6)	2.1
Intangible expenditure	(11.3)	(12.3)	1.0
Net cash used in investing activities	(23.9)	(26.9)	3.0
Net cash from financing activities	86.6	45.7	40.9
Net cash outflows	53.4	(12.1)	65.5

Net cash used in operating activities decreased by \$21.6m to \$9.3m, driven primarily by a reduction in working capital and other assets and liabilities, mainly relating to deferred income. Other non-cash items in EBIT consist of depreciation and amortisation as well as share-based payment expenses – both increased during the year.

Net Cash used in investing activities decreased by \$3m to \$23.9m. The Company continued to invest in industrialisation assets which support future growth plans. Intangible expenditure reduced slightly by \$1.0m to \$11.3m given the early stages of the new programs.

Net cash inflow from financing activities was achieved by completion of the \$95m equity raise that resulted in a \$89.9m cash inflow net of transaction costs as of 30 June 2021, slightly offset by the quarterly repayments of the new term debt facility and repayment of the lease liability.

The Company was successful in securing a new \$13m three-year term debt facility with Export Finance Australia (EFA) and repayment of the \$13m term loan previously held with Ronal AG. This change delivered a substantial interest cost saving. In addition, the repayment of the loan with State of Victoria and a leased liability occurred during the financial year. The Company entered into a working capital finance facility in February 2021 which enables the Company to obtain finance secured via receivables up to \$7.5m.

3.1.7 Capital Employed

	2021 \$m	2020 \$m	Change \$
Receivables	12.2	7.9	4.3
Inventories	18.2	27.8	(9.6)
Less: Payables	(12.1)	(17.0)	4.8
Working capital	18.3	18.7	(0.4)
Working capital / revenue	52%	48%	
Debtor days	127	74	53
Inventory days	135	201	(66)
Property, plant and equipment	47.3	44.0	3.3
Intangible assets	25.3	17.9	7.4
Capital employed	90.9	80.6	10.3

Capital employed increased by \$10.3m to \$90.9m in June 2021.

Working capital decreased by \$0.4m to \$18.3m. The decrease in inventory was offset by a reduction in payables and an increase in receivables. These movements were primarily related to a change in trading terms with the largest current production program that resulted in delayed customer receipts and therefore an increase in receivables.

- Trading terms were changed with one customer, allowing the Company to recognise sales when stock leaves the Geelong facility. Therefore, there were no wheels in transit at the end of FY21 as compared to \$3.8m in wheels in transit at the end of FY20
- Raw materials decreased by \$2.1m as elevated safety stock levels (due to COVID-19) at the end of FY20 were gradually consumed during FY21
- Payables were lower in line with the reduction in purchases of raw materials during the second half of FY21

Property, plant and equipment increased by \$3.3m to \$47.3m as the Company expanded production capacity throughout the year to support expected growth in current and near-term future programs.

Intangible assets increased by \$7.4m to \$25.3m reflecting the significant development activities being undertaken on customer programs and core technology development.

3.1.8 Net Debt

	2021 \$m	2020 \$m	Change \$
Loans and borrowings			
Current	9.9	18.7	(8.8)
Non-current	6.5	–	6.5
Total loans and borrowings	16.4	18.7	(2.3)
Less: Cash and cash equivalents	(87.3)	(33.9)	(53.4)
Net debt/(cash)	(70.9)	(15.2)	(55.7)

Net cash increased by \$55.7m to a net cash position of \$70.9m at June 2021. This was driven by completion of the \$95m equity raise that resulted in a \$89.9m cash inflow net of transaction costs as of 30 June 2021.

Part of the cash inflow was used to repay the loan with State of Victoria. In December 2020 Carbon Revolution entered a three-year term loan facility with EFA and repaid the \$13m Ronal AG term loan. \$5.5m of working capital finance facility was utilised as of the end of the financial year.

The level of net cash was also impacted by the cash used in both operating and investing activities throughout the year.

3.1.9 Prospects

Carbon Revolution's key focus areas for FY22 include:

- Executing the production ramp for new programs and for the program that is expected to enter production during FY22
- Delivering operational efficiencies through ongoing improvements in technologies, equipment and processes
- Advancing to formal award of the initial programs that underpin Phase 1 of the Mega-line
- Progressing the Phase 1 Mega-line project through detailed design, equipment procurement and commencement of commissioning

Looking ahead to FY22, we expect ongoing uncertainty in the global economy and in automotive supply chains as a result of the ongoing impacts of COVID-19. However, the Company expects the second half of FY22 to have significantly higher sales than the first half due to the introduction of a new program in the second half, the gradual ramp of the two new Ferrari programs throughout the year and the seasonality impact in the first half of an existing program.

Carbon Revolution enjoys a range of strategic growth opportunities, in addition to the scaling up of its Geelong manufacturing facility to materially increase production capacity. The Company aims to leverage its technology into adjacent industries, such as the aerospace and transportation sectors, and will continue to invest in this during FY22.

3.1.10 Forward-Looking Statements

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

3.1.11 Business Risks

Risk	Description of Risk and Potential Consequences	Mitigation strategies
Risks associated with COVID-19, other pandemics, and other supply chain disruption	<ul style="list-style-type: none"> Carbon Revolution's operations and future demand may be further disrupted by COVID-19 COVID-19 may have direct or indirect impacts on Carbon Revolution via plant shutdown at Carbon Revolution's production facility, plant shutdown at vehicle production plants operated by Carbon Revolution's customers, and supply chain disruption or shortages in Carbon Revolution's upstream supply chain or the supply chain of its customers As a result of COVID-19, customers may reduce or cease ordering wheels or factory disruptions may cause Carbon Revolution to reduce production of its wheels or cease producing wheels altogether and this may have a material negative impact on Carbon Revolution's ability to achieve its forecasts. Carbon Revolution may also experience issues meeting required production under customer contracts The Company's suppliers may be negatively impacted by COVID-19, thereby threatening the supply of raw materials and consumables Government policies or other authoritative directions in response to COVID-19 may substantially impact or curtail Carbon Revolution's operations Carbon Revolution's sales are also dependent on the stability of global supply chains which may be disrupted by COVID-19 or for a variety of other reasons. These disruptions may affect Carbon Revolution's sales if Carbon Revolution is unable to procure input materials sufficient for its production requirements. Also, global supply chain disruptions may result in one or more of Carbon Revolution's customers experiencing shortfalls in procuring other parts for vehicles for which Carbon Revolution has wheel programs in place, which may result in reduced demand for Carbon Revolution's wheels from such customer/s 	<ul style="list-style-type: none"> Moving to or continuing wheel sales via sea freight allows continued production and shipping of wheels in the event one or more customer's warehouse facilities close due to a COVID-19 case temporarily causing a cease to receiving of wheels The business has regularly and quickly adopted its own working protocols to minimise the potential for a COVID-19 case at the Waurin Ponds facility and updated these as necessary to respond to changing circumstances Raw materials stocks are constantly reviewed and safety stock is held to mitigate the risk of disruptions to the raw material supply chain Communication with customers and monitoring of customer ordering portals enhances understanding of short term customer order fluctuations

Risk	Description of Risk and Potential Consequences	Mitigation strategies
Carbon Revolution may not be able to achieve its manufacturing quality, volume and cost targets	<ul style="list-style-type: none"> Any inability of Carbon Revolution's manufacturing processes and procedures to consistently produce the required quantity of wheels at the required quality standards and specification targets and within the required customer timeframes, at the expected cost levels, may result in higher scrap rates, quality issues and/or costs per wheel, or shipping wheels late or not according to customer specifications, which may result in loss of customers, failure to obtain new wheel programs or increased costs for Carbon Revolution, which would negatively impact its financial performance Shipping wheels late or not according to customer specifications could result in Carbon Revolution being required to pay costs or damages to its customers, or result in negative customer perceptions about Carbon Revolution's ability to meet its supply obligations under its supply contracts. This in turn could adversely impact Carbon Revolution's ability to secure new programs or retain customers, which would have an adverse impact on its ability to generate revenues Failure to achieve the desired quality targets or to produce wheels at the forecast cost levels may result in reduced margins and/or an inability to access a broader cross section of the wheel market due to higher than forecast product costs 	<ul style="list-style-type: none"> The business has a quality system in place and operates with IATF 16949 and ISO9001 certifications. Quality reporting systems are used to identify where quality issues exist and appropriate problem-solving tools are used to understand and fix root causes Diamond Weave Technology will be rolled out to all wheel programs, significantly enhancing the aesthetic quality of the face of the wheel EDI (electronic data interchange) systems allow the Company visibility of both forward orders and forecast requirements. Sales and Operations Planning systems are used to organize and plan resources in order to meet customer requirements Actual and forecast DIFOT (delivery in full, on time) are key measures used in the business to constantly monitor and understand the Company's ability to deliver to customer plans

Risk	Description of Risk and Potential Consequences	Mitigation strategies
Carbon Revolution may not be able to execute its industrialisation plans, including the Mega-line Phase 1 project, as planned	<ul style="list-style-type: none"> • Various technical and engineering challenges must be overcome in order for Carbon Revolution's industrialisation plans to be achieved. This process may take longer or cost more than anticipated, not achieve the outcomes anticipated, or unforeseen issues may arise during the engineering or commissioning process for new equipment. The capital cost of expanding operations may be higher than anticipated resulting in a lower return on investment than expected. If Carbon Revolution cannot automate and scale its manufacturing process to the extent anticipated, it may have a material adverse impact on Carbon Revolution's performance and prospects • In particular, Phase 1 of the Mega-line may take longer or cost more than anticipated to implement, or not deliver the expected volumes, production efficiencies, or cost reduction benefits forecast by Carbon Revolution, which may adversely affect Carbon Revolution's financial position and performance • Associated with this, new and larger volume OEM wheel programs which Carbon Revolution plans to commence production on Phase 1 of the Mega-line may experience delays or cost overruns due to delays in completing the Mega-line, the Mega-line not performing to expectations or other issues which can be experienced in relation to the installation and commissioning of major equipment projects. This may result in reduction in revenues, lower margins, or contractual claims against Carbon Revolution • Carbon Revolution may not have the internal resources or capability, or be able to employ or engage the appropriate capability, required in order to successfully complete Phase 1 of the Mega-line project or fully utilise the expected benefits of the Mega-line once commissioned and in production. • The Mega-line Phase 1 project may impact production on existing customer programs, which may result in reduced revenue and damage to customer relationships, and contractual claims against Carbon Revolution 	<ul style="list-style-type: none"> • New industrialised equipment is designed and tested using discrete event simulation and virtual commissioning techniques before actual acquisition, construction and go live. Maintenance plans are established by the Industrialisation team for all new equipment before handover to the production maintenance team • Operations team assess risk impact on current production and factor any risk into their Sales and Operations Plans. If necessary to mitigate risk inventory can be built ahead of time to assist the continued supply of wheels to customer orders during the project construction phase • Carbon Revolution has a robust project governance structure in place to plan and manage the Mega-line Phase 1 project and to manage risks relating to the project. A project manager has also been engaged. The project manager will closely monitor the timing of all critical path items and escalate any timing risk throughout the project. An independent expert has also been engaged to advise the Board and Management on key implementation risks and mitigation activities • Long lead time items have been ordered. The principal contractor has been engaged and project teams are established and work underway. Steering Committee and Project manager monitors progress on a regular basis

Risk	Description of Risk and Potential Consequences	Mitigation strategies
<p>Carbon Revolution's wheel programs and customers are concentrated and demand for Carbon Revolution's wheels may be lower than expected</p>	<ul style="list-style-type: none"> Carbon Revolution has eight awarded customer programs in production or yet to enter production with four OEMs and losing any one of these may significantly adversely affect its financial performance and prospects These customers and the wheel programs Carbon Revolution has been awarded are relatively concentrated in terms of customer type and product type (being limited to performance and premium/luxury vehicles and their manufacturers) and geography. As a result, Carbon Revolution is exposed to a range of risks, including customer failure, or the risk that consumer preferences shift in a way that is unfavourable to Carbon Revolution Failing to enter into additional supply contracts and attract additional OEM customers may negatively impact on Carbon Revolution's prospects and likely future financial performance In order for Carbon Revolution to expand the type of customers it sells to and the wheel programs it is awarded, it may be required to reduce its wheel prices so as to open a larger addressable market. It may not be able to do so (or do so to the extent expected), which may negatively impact on Carbon Revolution's prospects Carbon Revolution's contracts with OEMs for awarded wheel programs are not take-or-pay agreements and as such do not contain any guaranteed sales or guaranteed or minimum purchase obligations binding on the customer. Orders made by OEM customers under those agreements may be lower than forecast by Carbon Revolution. Further, programs under detailed design and engineering agreement (including the four programs underpinning the Mega-line Phase 1 investment) may not result in formal program award and may not result in wheel sales, or may result in lower sales than forecast There are a range of other factors which may result in demand for Carbon Revolution's wheels being lower than anticipated, and many of these factors are outside Carbon Revolution's control Carbon Revolution's ability to reduce its cost per wheel is partially dependent on scale, and therefore if demand for Carbon Revolution's wheels is lower than anticipated, this may adversely impact Carbon Revolution's ability to dispose of inventory profitably or at all which may in turn impact on Carbon Revolution's financial performance and prospects 	<ul style="list-style-type: none"> The Company has well developed business plans and strategies that are regularly measured and adjusted where appropriate. Key account management is established for all customers and key target customers. Sales performance, DIFOT and growth plans for each customer are regularly reviewed and appropriate actions are in place Carbon Revolution is in constant communication with customers to identify any change in demand as early as possible to provide an enhanced ability to minimise impact on Carbon Revolution operations The Company has multi-tiered relationships with its customers, across senior executives, program directors, program design teams, marketing and procurement. These relationships are all leveraged to work on future growth opportunities, development programs, current production planning, commercial and logistics items The Company is well progressed towards expanding beyond the performance and premium/luxury segments. A significant proportion of the four new programs for which detailed design and engineering agreements were signed in FY21 are for EVs, and these programs also represent the Company's first move into the pickup truck market. The Company continues to develop its pipeline of growth opportunities

Risk	Description of Risk and Potential Consequences	Mitigation strategies
Carbon Revolution is not yet profitable or cash flow positive	<ul style="list-style-type: none"> Carbon Revolution has not yet become profitable and cashflow positive, as such, is currently reliant on its cash reserves and sources of new funds until it is cash flow positive Carbon Revolution is the borrower under a three-year amortising loan with Export Finance Australia (EFA) with a principal amount owing of \$13 million, under which Carbon Revolution must pay EFA quarterly repayments until 11 November 2023. Carbon Revolution also has an up to \$7.5m working capital finance facility, where the outstanding balance will vary with the receivables financed through this facility at any time Carbon Revolution's ability to raise additional funds if required to meet its operational requirements and repay EFA, through debt or the issue of securities may be subject to factors beyond the control of Carbon Revolution and its Directors, including general factors affecting the economy and capital markets (including COVID-19). There is no guarantee that such funding, whether debt, equity or otherwise, will be obtained or available on favourable terms, or at all. Carbon Revolution may also experience difficulties extending or replacing its working capital financing facilities Carbon Revolution will be required to seek EFA's consent to amend the loan agreement with EFA as a result of the Mega-line Phase 1 investment and required growth in working capital financing, and there is a risk that EFA may not agree to the amendments sought by Carbon Revolution, which may adversely impact on Carbon Revolution's financial performance and prospects or the Company may need to repay the loan in order to increase its working capital financing capacity. Carbon Revolution also has certain loan covenants under the EFA loan agreement, and any failure to meet loan covenant obligations may adversely impact on Carbon Revolution's financial performance and prospects If the Company's funds were to run out and there is an inability to raise funds when required, this may adversely impact on Carbon Revolution's financial performance and prospects Because Carbon Revolution has a limited operating history and has not yet become profitable its operating history may not provide a meaningful basis for investors to evaluate the business or its financial performance and future prospects 	<ul style="list-style-type: none"> The business completes an annual budget process, regular forecasts and conducts sensitivity and scenario analysis to understand possible implications on profitability and funding needs. Cash is managed carefully in order to preserve cash to enable the business to meet its stated objectives The Company considers that strong relationships with its debt and equity funding providers is important to the long-term prospects of the business. The Company has communication plans for both current and potential shareholders and debt funding providers. The Company is engaged with EFA to review Phase 1 of the Mega-line implications on the current debt funding terms and conditions

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

Risk	Description of Risk and Potential Consequences	Mitigation strategies
Carbon Revolution's competitive position may deteriorate as a result of action by competitors	<ul style="list-style-type: none"> Carbon Revolution's competitive position may deteriorate as a result of competitors entering the market and supplying one piece carbon fibre wheels to global OEMs Competitors may also develop products of a higher quality or at a lower cost than Carbon Revolution's products Competitor activity may result in the Company having to quote lower prices in order to win programs, resulting in lower than expected margins; or programs being awarded to competitors, resulting in lower than expected sales Increased competitor activity may also result in higher demand for certain input materials which may increase materials cost inputs, which may in turn result in lower margins Increased competitor activity may also result in greater demand for personnel with specialist expertise required to design and manufacture carbon fibre wheels Competitors may create, or have already created, intellectual property rights (including patents) that restrict Carbon Revolution's ability to exploit its own technology, require Carbon Revolution to modify its own technology or manufacturing processes to avoid infringement (incurring additional costs in doing so), enter into licensing or royalty arrangements (at additional cost) or risk infringing claims by such competitors Third parties may challenge Carbon Revolution's intellectual property rights or assert intellectual property infringement, breach of confidentiality, or make similar claims against Carbon Revolution (or its customers) under patent, trade secret or other intellectual property laws. Such claims, if made, may harm Carbon Revolution's business. If Carbon Revolution is forced to defend claims of intellectual property infringement or breach of confidentiality, whether they are with or without merit or are determined in Carbon Revolution's favour, the costs of such litigation may potentially be significant and may divert Management's attention from normal commercial operations 	<ul style="list-style-type: none"> Carbon Revolution actively monitors the competitive situation. Regardless of the number of market entrants focusing on single piece carbon fibre wheels, Carbon Revolution also regards itself as in competition with aluminium wheels (and wheels made of other materials) and various other forms of technology that are currently offered as optional on vehicles Carbon Revolution's strategy is to protect its position in the market by measures including: expanding its customer base and the range of vehicles featuring its carbon fibre wheels, driving brand awareness, continuing to innovate and develop its technology, increase scale and reduce manufacturing costs Carbon Revolution maintains a portfolio of intellectual property, including 44 granted patents in 6 patent families (with a further 3 pending in those families) plus 29 pending patents in an additional 5 patent families, which it uses to protect its core wheel technology The Company opts to use product patents and not process patents wherever possible. This protects the work methods and process and protects the visible technology in or on the wheel Carbon Revolution's Board and Management have various strategies in place to address key person risk, including: a competitive and incentivised remuneration framework that is designed to attract, motivate and retain high quality executives as well as align their interests with business objectives and generate sustainable growth; an employee share scheme and other programs designed to encourage employee share ownership; a focus on employee communication and engagement including annual engagement survey; and implementation of the CARE program, the Company's new mental health model

Risk	Description of Risk and Potential Consequences	Mitigation strategies
<p>Carbon Revolution's business may be impacted by climate change and related risks</p>	<ul style="list-style-type: none"> Carbon Revolution's operations, suppliers, and customers may be directly or indirectly affected by climate change, extreme weather events, and other natural disasters. There has been an increased frequency of natural disasters globally in recent years and it is expected that this trend will continue in the medium to long term. Climate, weather and natural disaster events could lead to an adverse impact on Carbon Revolution's business and operational position Carbon Revolution's costs may increase as it implements initiatives in response to climate change, either voluntarily or in response to requirements imposed by customers, suppliers or regulators. Suppliers may pass on cost increases directly related to the impact of climate change on their own operations, and Carbon Revolution may not be able to pass these cost increases on to customers via increased wheel prices. Carbon Revolution's costs may also increase as a result of increased taxes or tariffs related to climate change Changing regulatory requirements or customer, consumer or investor standards and expectations in relation to climate change, sustainability and environmental matters may increase Carbon Revolution's operational and compliance costs, or adversely impact Carbon Revolution's reputation Carbon Revolution, its suppliers and service providers are required to comply with environmental laws and regulations. The production and transportation of Carbon Revolution's products and other inputs in the production process involve the risk of accidents, spills or contamination. Any of these occurrences could cause harm to the environment, which may lead to disruption in Carbon Revolution's operations and supply chain, regulatory sanctions and remedial costs, any of which could negatively impact Carbon Revolution's operating and financial performance 	<ul style="list-style-type: none"> The Company is ISO14001 certified and maintains an environmental impacts and aspect register with mitigations and improvement plans for all items. The Company is in the process of developing its environmental impact plan including targets for reduction in impact suitable for a growing business such as Carbon Revolution The Company's lightweight wheels assist its customers with reducing weight of the vehicles and thus reducing emissions. The weight reduction delivers either range extension for battery electric vehicles or reduced fuel consumption for internal combustion engine vehicles, both of which reduce the environmental impact of the customer vehicles as compared to heavier aluminum or steel wheels

Risk	Description of Risk and Potential Consequences	Mitigation strategies
Workplace incidents or accidents may occur	<ul style="list-style-type: none"> • The manufacturing of Carbon Revolution's wheels involves certain labour-intensive processes, exposure to hazardous chemicals and the use of various machinery and equipment. There may be an incident or accident at Carbon Revolution's facility that results in serious injury or death to employees, contractors or other third parties, or damage to property • The occurrence of any workplace incident may result in a fine imposed by a regulatory authority, an interruption of manufacturing operations, a worker's compensation claim, a work health and safety claim or a damages claim against Carbon Revolution. Such claims or events may also adversely impact Carbon Revolution's business and reputation • In addition, the Phase 1 Mega-line will be a construction project involving the erection of mezzanine structures and the relocation, installation and commissioning of heavy equipment, and following installation, the use of new equipment and processes in day-to-day production operations. These activities carry a greater risk to health and safety than standard production operations using existing equipment. Further, safety incidents and near misses can result in delays to project timetables which may impact Carbon Revolution's financial performance and prospects • Employees or other personnel may have mental health issues which may be caused by or exacerbated at the workplace, or may affect work performance 	<ul style="list-style-type: none"> • Carbon Revolution is focused on providing a safe workplace which supports the physical and mental well-being of its employees and contractors and the leadership team is committed to driving and embedding in the culture a proactive safety agenda • The Company has a formal occupational health and safety policy which is supported by a variety of other policies and procedures, overseen by the full time OHSE Coordinator • The leadership team has extensive experience managing high risk operations including transport, heavy steel and dangerous goods processing This has ensured the team is able to closely manage and mitigate safety risks within the manufacturing process whilst building a team of safely engaged team members • Safety is the first agenda item at production meetings, weekly management meetings and Board meetings, with a view to promoting a safe working environment and driving a safety first culture • Carbon Revolution has implemented a bespoke mental health model named CARE which supports the mental wellbeing of team members

DIRECTORS

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 2021 (FY21) in compliance with the Corporations Act 2001.

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

James Douglas	Independent, Non-Executive Chair
Jake Dingle	Chief Executive Officer, Managing Director
Bruce Griffiths	Independent, Non-Executive Director (ceased 6 November 2020)
Lucia Cade	Independent, Non-Executive Director
Dale McKee	Independent, Non-Executive Director
Mark Bernhard	Independent, Non-Executive Director
Peter Lewinsky	Independent, Non-Executive Director (ceased 9 July 2021)

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

3.2 DIRECTORS

3.2.1 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 for the full financial year or since the end of the financial year is provided on pages 31 to 33. Details of the Company Secretary, David Nock are in section 3.3.

3.2.2 Directors Meetings

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

Director	Board meetings eligible to attend	Attended	ARC meetings eligible to attend	Attended	RNC meetings eligible to attend	Attended
James Douglas	24	24	9	9	5	5
Jake Dingle	24	23	–	–	–	–
Bruce Griffiths	10	10	–	–	4	4
Lucia Cade	24	22	–	–	9	8
Dale McKee	24	24	9	9	–	–
Mark Bernhard	24	24	–	–	9	9
Peter Lewinsky	24	20	9	9	–	–

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

There were two resolutions passed via board circular written resolutions during FY2021.

The Audit and Risk Committee (ARC) is comprised of Dale McKee (Chair), and James Douglas and Peter Lewinsky (Members). Mark Bernhard replaced Peter Lewinsky as a member of the committee as of close of business 9 July 2021.

The Remuneration and Nomination Committee (RNC) is comprised of Bruce Griffiths (Chair) up to 6 November 2020, Lucia Cade (also Chair from 6 November 2020), James Douglas (commenced as Member from 6 November 2020), and Mark Bernhard (Member).



JAMES DOUGLAS

Independent, Non-Executive Chair

Appointed to the Board: 25 November 2011

Member of the Audit and Risk Committee

**Member of the Remuneration and Nomination Committee
(from 6 November 2020)**

- Over 25 years of investment banking and venture capital experience in Australia and the United States
- Venture Partner for the Acorn Capital Expansion Fund, a Series B Venture Fund, and Founder and general partner of Newmarket Capital, a late stage venture capital business, non-executive director of Export Finance Australia
- A former non-executive director of Quickstep Holdings Ltd (December 2016 to November 2019) (Audit and Risk Committee Chair 2017 to 2019)
- Prior to establishing Newmarket Capital, James spent 15 years in investment banking, including as co-head of Global Banking at Citi (Australia) and Global Head of Consumer Products Investment Banking for Merrill Lynch in New York
- Science degree and Law degree from Melbourne University
- Graduate of the Australian Institute of Company Directors



JAKE DINGLE

Chief Executive Officer, Managing Director

Appointed to the Board: 20 November 2008

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



LUCIA CADE

Independent, Non-Executive Director

Appointed to the Board: 3 August 2018

**Member of the Remuneration and Nomination Committee
(up to 6 November 2020)**

**Chair of the Remuneration and Nomination Committee
(from 6 November 2020)**

- Board and executive experience that spans utilities, technology and innovation, industry-led research and development, construction, global technical advisory and infrastructure investment
- Currently serves on the boards of South East Water (Chair), Paintback (Chair), Future Fuels CRC (Chair of Commercialisation Committee), Engineers Australia (Chair of Nominations Committee), FLAIM Systems Pty Ltd
- A former director of Water Resources Group Limited (renamed to Purifloh Limited) (April 2018 to November 2019)
- Bachelor of Engineering, Bachelor of Economics and Master of Engineering Science from Monash University and an MBA from the Melbourne Business School at the University of Melbourne
- Fellow of Engineers Australia and Fellow of Australian Institute of Company Directors



DALE MCKEE

Independent, Non-Executive Director

Appointed to the Board: 27 September 2018

Chair of the Audit and Risk Committee

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



MARK BERNHARD

Independent, Non-Executive Director

Appointed to the Board: 3 June 2019

Member of the Remuneration and Nomination Committee

Member of the Audit and Risk Committee (from 9 July 2021)

- Significant board and executive management experience in the automotive industry, having served as Chairman and Managing Director of General-Motors Holden Australia from 2015 to 2018
- Chief Financial Officer and Vice-President of Shanghai-GM from 2011 to 2015
- A non-executive director of a not-for-profit, Healthy Male, since August 2020 and chair of their Audit and Risk Committee
- Studied Transformational Management at Stanford University, holds an MBA from Deakin University and a Business/Accounting degree from Monash University
- Graduate of the Australian Institute of Company Directors



PETER LEWINSKY

Independent, Non-Executive Director

Appointed to the Board: 3 June 2019 (Ceased: 9 July 2021)

Member of the Audit and Risk Committee (up to 9 July 2021)

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

SENIOR MANAGEMENT

3.3 SENIOR MANAGEMENT



JAKE DINGLE

Chief Executive Officer, Managing Director

Appointed in April 2012

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



GERARD BUCKLE

Chief Financial Officer

Joined in September 2019

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



DR ASHLEY DENMEAD

Engineering Director

Founder of Carbon Revolution

- More than ten years of experience in virtual and physical prototyping of composite parts for motorsports, marine and industrial applications
- Double degree in Mechanical Engineering (First Class Honours), Computer Science (Software Development) and a PhD in composite materials at the Deakin University Centre for Materials and Fibre Innovation



DAVID NOCK

General Counsel, Company Secretary

Joined in August 2017

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



LUKE PRESTON

Industrialisation Director

Joined in June 2018

- An internationally experienced manufacturing engineering leader, delivering highly automated and process efficient production lines
- Experience developing advanced tools that enable thoroughly engineered solutions to be implemented in significantly reduced time-frame
- Led major product launches including the FG Falcon in Final Assembly for Ford Australia, the Model X in the automated Body-in-White at Tesla and the Model 3 launch at Tesla
- Bachelor of Engineering and Computer Science from RMIT



ADRIAN SMITH

Sales & Business Development Director

Joined in August 2019

- Internationally experienced automotive business executive, most recently working as Vice President of the High-Performance Division of Akebono Brake Corporation, with previous roles at Brembo North America
- Bachelor of Science (Honours) majoring in Mechanical Engineering from the University of Birmingham, UK



JO MARKHAM

Director of Customer Excellence

Joined in October 2020

- An experienced senior executive, with a passion for developing leaders and building effective teams within a culture of trust, fairness and transparency
- Extensive auto experience spanning product development, manufacturing, quality, customer experience, sales and logistics and warehousing
- Previous roles at General Motors (GM) / GM Holden and FCA (Fiat Chrysler) Australia
- Bachelor of Engineering from Melbourne University



JON SMILES

Human Resources Director

Joined in March 2021

- HR Executive with international experience
- Demonstrated expertise in major HR project leadership, strategic business partnering, HR data systems and digital environments
- Previous roles at PPG Industries, Orica, Kodak and National Australia Bank located across Australia, the United States and South East Asia
- Bachelor of Economics from Monash University



ANDREW HIGGINBOTHAM

Operations Director

Joined in May 2021

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

REMUNERATION REPORT

3.4 REMUNERATION REPORT

Dear fellow shareholders

On behalf of the Carbon Revolution Board of Directors, I am pleased to present the Company's Remuneration Report for the financial year ended 30 June 2021 (FY21). FY21 was our first full reporting year as an ASX listed entity and represents another year of substantial progress towards our industrialisation strategy and increased adoption of our technology across a broader range of vehicles. We respect and thank the Management team and all employees for their substantial commitment and pioneering achievements. We acknowledge the challenging year for shareholders and appreciate their ongoing support as we implement our growth strategy.

The Remuneration Report sets out remuneration information for the Chief Executive Officer (CEO)/Managing Director, the Chief Financial Officer (CFO) and Non-Executive Directors. It describes the Carbon Revolution Remuneration Framework (Remuneration Framework) and pay outcomes for FY21 in a simple and transparent way.

Performance and Remuneration Outcomes for FY21

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

- i. Fixed Remuneration and Non-Executive Directors Fees – no increase in Non-Executive Directors' fees will be made in FY22 as was the case in FY21. Following a review of market data, broader economic indicators and performance, Fixed Annual Remuneration for Executive Key Management Personnel (KMP) will increase by 2% in FY22;
- ii. Short Term Incentives (STI) - STIs were awarded at 40% of maximum opportunities for achieving cash, business development and individual objectives set by the Board. More details are provided below and in section 7 of the report.

As disclosed in the FY20 Remuneration Report, the Board determined that the FY21 STI plan will be 60% weighted to financial results with the primary financial goals being revenue growth (30%), EBITDA (15%) and cash management (15%). The Board also sets corporate non-financial objectives focused on securing new wheels programs (15%) and safety performance goals (5%). The final 20% was allocated to achieving strategic or operational objectives related to the role. The Board made the following assessments in determining STI awards:

Revenue – Nil Award – below the target set. Revenue was negatively impacted with one key customer cancelling forecast purchases for approximately six months due to COVID-19 and another key customer cancelling forecast orders due to an extended plant shutdown as a result of the global semi-conductor chip shortage. Whilst the Board assessed the impact of these external events on the revenue target, the Board did not apply any discretion and as a result no award was made for this objective.

EBITDA – Nil Award – below the target set. Whilst the Board assessed the impact of external events and some one-off costs on the EBITDA target, the Board did not apply any discretion on this component.

Cash – Awarded 15% – above the target set. Management achieved a range of cash positive objectives ahead of target especially in the areas of working capital, labour savings and deployment of employee equity schemes. The Board excluded the capital raising completed in April 2021 in determining their assessment of performance. The Board did exercise its discretion

in relation to a strategic growth project (\$1.5m), the impact of semi-conductor chip shortage on revenue (\$3.1m) and re-negotiated terms with a key client (\$5.5m) that were not budgeted.

Corporate Objective – secure new wheel programs to underpin Phase 1 of the Mega-line investment – Awarded 15% – Business development activities resulted in securing formal agreements relating to four new programs for OEMs expected to enter production in CY2023 and CY2024. The expected volumes for these four new programs underpin the decision to progress Phase 1 of the Mega-line to increase capacity by 75,000 wheels and completion of the \$95m capital raise.

Safety Objective – Nil Award – Below target set – Whilst safety performance continues to be ahead of industry benchmarks, performance was below the target set.

Personal Objectives – at target – The Board assessed personal objectives and achievements of Executive KMP at target. These achievements included advancement of the industrialisation program with further automation of production processes, development and implementation of new technology, implementation of new business systems and securing re-financing of the Ronal debt with EFA and a \$7.5M working capital facility, ongoing customer development for future wheel programs, enhancing leadership capability through key executive appointments, and ensuring business continuity plans in response to the COVID-19 pandemic.

The CEO/Managing Director's fixed remuneration was not changed in FY21. His STI award of \$120,000 was down 11% from FY20. No LTI awards vested as the plans have not reached the end of their performance periods.

Board discretion to award all STIs in equity – The Board determined that all participants would have 100% of their FY21 STI outcome delivered in the form of equity in lieu of a cash payment. This decision was made to further align employees with shareholders while also preserving cash. Consistent with the plan rules, 50% of the FY21 STI Award for Executive KMP will be deferred in rights that will vest in 12 months from grant.

iii. Long Term Incentives (LTI) – No LTIs vested given LTI plans were introduced for FY20 and FY21 and neither have reached the end of their performance period.

Remuneration Framework Review

Each year, the Board reviews the Remuneration Framework, ensuring that it supports our business objectives, operates sustainably and is market competitive. The Board welcomes feedback on the Remuneration Report and we consider that feedback as part of our review.

As disclosed in the FY20 Remuneration Report, the Board committed to complete a strategic review of the LTI Plan. The result of this review and rationale for the changes is contained in section 5 of this report and can be summarised as follows:

Grant values – No change to maximum grant values for Executive KMP or other senior executives.

Performance Period – maintained at three years.

Performance Hurdles – following feedback from shareholders in FY20 and results of the review, the Board will introduce two equally-weighted performance hurdles for FY22. They are:

- i. **Relative Total Shareholder Return (rTSR)** with measurement compared against the ASX300 constituents.
- ii. **Strategic Objective** – focused on successful implementation of Phase 1 of the Mega-line investment and utilising the new capacity by bringing the four wheel programs that underpinned the Mega-line investment Phase 1 to production within the target timeframe.

Form of Equity – the Board has determined that options provide executives the right incentive to achieve the performance hurdles set and to drive share price growth. To further align with shareholders and to ensure the targets are sufficiently demanding the exercise price will be appropriately set and will be no lower than \$1.60 aligned with our most recent capital issue price.

The Board also completed market benchmarking of executive remuneration and continued to evolve the design of the STI plan as we transition to an established ASX listed entity. The detail of these STI design changes are contained in section 5 and are summarised as follows:

Increase the financial focus by increasing the weighting of this component from 60% to 70%. Consequently, this reduces the weighting of the non-financial element from 40% to 30%

Increasing maximum STI award opportunities in line with market benchmarking and having considered the level of STI deferral. This change also enabled the introduction of stretch financial objectives which the Board determined is essential to drive and reward financial performance beyond budget. Maximum STI opportunities will increase for executives from 40% to 50% and for the CEO/Managing Director from 60 to 75%.

Introducing threshold, target and stretch parameters that drive performance, provide fair outcomes and reward outperformance of targets set.

We believe these changes enhance our Remuneration Framework and drive performance-based outcomes.

I invite you to review the 2021 Remuneration Report.



Lucia Cade

Chair, Remuneration and Nomination Committee

23 August 2021

3.4.1 Purpose

This Report sets out the remuneration arrangements for the Key Management Personnel (KMP) of Carbon Revolution for the year ended 30 June 2021. The report discloses remuneration data for the period from 1 July 2020 to 30 June 2021. It has been prepared based on the requirements of section 300A of the Corporations Act 2001 (Cth) (Corporations Act) and Corporations Regulation 2M.3.03 and has been audited by Carbon Revolution's external auditor. The aim of this Report is to provide shareholders a 'plain English' understanding of Carbon Revolution's remuneration framework, policies and individual KMP remuneration outcomes for FY21. The report also details proposed changes for the financial year ended 30 June 2022 (FY22).

3.4.2 Key Management Personnel (KMP)

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

KMP for the year ended FY21 are detailed in the table below.

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

Table 1: Key management personnel

Name	Position	Term as KMP
Non-executive Directors (NEDs)		
James Douglas	Chair	Full year
Bruce Griffiths	Director	Part year (to 6 November 2020)
Lucia Cade	Director	Full year
Dale McKee	Director	Full year
Mark Bernhard	Director	Full year
Peter Lewinsky ¹	Director	Full year
Executive KMP		
Jake Dingle	Managing Director & CEO	Full year
Gerard Buckle	Chief Financial Officer	Full year

¹ Mr Lewinsky ceased being a director of the Company on 9 July 2021.

3.4.3 Remuneration Strategy and Framework

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

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

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

Principle	Explanation and Practice
Performance based	All aspects of remuneration including fixed remuneration and any incentives, are based on annual performance against strategic objectives, business plans and longer-term shareholder returns. The variable components of remuneration (both short term and long term) are driven by challenging targets designed to create sustained shareholder value. A significant proportion of executive remuneration is 'performance based' as disclosed in Table 14.
Market competitive	Remuneration opportunities, including those elements which can be earned subject to performance, are set at competitive levels that will attract, motivate and retain high quality executives. The Board reviews fixed and variable remuneration by undertaking regular market benchmarking against equivalent roles from organisations with similar market capitalisation, revenue and EBITDA. The Board has set the policy for fixed remuneration at the market median for the Comparator Group and up to top quartile for total remuneration for stretch performance.
Drives strategic and shareholder value	The Board ensures that incentive plans and performance measures are designed to create sustained shareholder value. The Board ensures the performance measures in both the STI and LTI plans are sufficiently demanding and promote the delivery of both annual business plans and the long-term strategy.

Principle	Explanation and Practice
Promotes employee ownership	Carbon Revolution encourages all employees to act like owners. Increasing alignment between employees and shareholders has been promoted through: <ul style="list-style-type: none"> i. STI deferral at 50% for executives; ii. 100% of FY20 and FY21 STI granted in equity; iii. NED Fee Salary Sacrifice Plan – see Table 7; iv. FY21 Employee Rights Plan – see Table 7; v. the Tax-Exempt Employee Share Ownership Plan (TESP). Under this plan eligible employees are provided up to \$1,000 of Carbon Revolution shares per annum; vi. Including significant equity in the design of both STI and LTI plans. This aligns KMP and senior executives with shareholder interests through a significant emphasis on variable remuneration; and vii. NEDs, Executive KMP and senior executives are required to hold, or make progress towards the minimum shareholding requirements set out in the Minimum Shareholding Policy.
Simple and fair	Remuneration arrangements should be simple for participants and shareholders to understand. They should be cost effective to administer. The Board will oversee the design of remuneration arrangements and use appropriate discretion, where required, to ensure there are not inappropriate benefits and that performance and the creation of shareholder value is rewarded.

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

Table 3: Executive KMP Remuneration framework

Element of Remuneration	Purpose and Market Positioning	Measures
Fixed Annual Remuneration Includes base salary, superannuation, other eligible salary sacrifice benefits and employee rights where this has been substituted for base salary	To pay fairly against the market for comparable roles Set to attract and retain capable employees Set at the market median for Comparator Group companies defined as All Industries, excluding Financials and Resources, with a market capitalisation between \$200M-\$550M	Role and Responsibility Skills, experience and accountability 80-120% of the median for comparable roles Reviewed annually based upon performance and economic data Reviewed for promotions

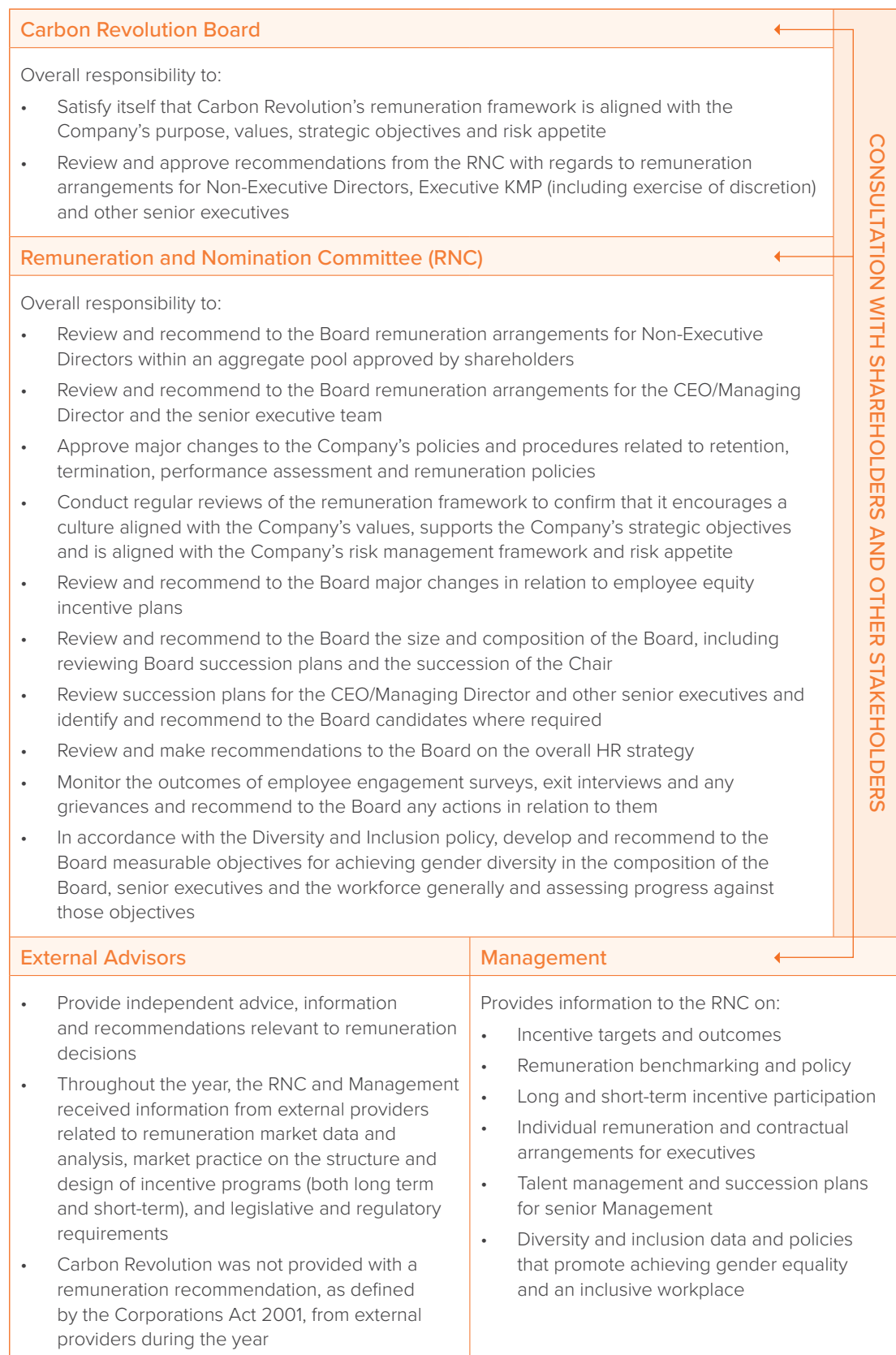
Element of Remuneration	Purpose and Market Positioning	Measures
Short-Term Incentive (STI) Annual incentive opportunity typically delivered in cash and equity including Short Term Incentive Deferral	<p>Drive and reward the achievement of challenging annual growth and performance targets</p> <p>Target is set between the median and 75th percentile of the Comparator Group</p> <p>The Board has the discretion to adjust STI outcomes to ensure that individual outcomes are appropriate</p> <p>Typically, 50% of STI award is made in cash and 50% deferred into Rights through the Equity Incentive Plan (EIP) which is subject to a continuous service condition. This generally requires the participant to be employed by the Group until the one-year anniversary on which the Rights are granted</p>	<p>Financial – typically includes measures such as revenue growth, cash management and EBITDA objectives</p> <p>Non-financial – typically includes corporate and safety objectives and personal objectives related to the strategy and role</p> <p>The Board sets financial, and non-financial objectives and determines overall weighting of the objectives annually based on business priorities</p> <p>Assessment of financial and non-financial objectives are made by the Board.</p> <p>Further details are provided in Table 4</p>
Long-Term Incentive (LTI) Three-year incentive opportunity delivered through options or performance rights with vesting dependent on service conditions and achievement of challenging performance conditions	<p>Drive performance and deliver strategic objectives that create long-term shareholder value</p> <p>Promote the opportunity for executives to build their interests in Carbon Revolution equity</p> <p>Attract, motivate and retain the necessary executive talent to grow the business and increase returns to shareholders</p> <p>Achieve shareholder alignment through equity ownership</p> <p>Maximum grants of options or performance rights are issued through the EIP and are set between the median and 75th percentile for Comparator Group</p>	<p>LTIs are issued through the Employee Share Ownership Plan (ESOP) in FY20 and the FY21 LTI Rights Plan</p> <p>Performance measures are aligned with shareholder value with performance measures set to share price (ESOP) and Indexed Total Shareholder Return versus the ASX300 Index (FY21 LTI Rights Plan)</p> <p>Full details are provided in Tables 5 and 6</p> <p>Holders of options and performance rights are not entitled to dividends until options are exercised or rights have vested and are converted to shares</p>

Element of Remuneration	Purpose and Market Positioning
Total Remuneration	Is designed to attract, retain and reward executives to deliver sustainable returns for shareholders with a significant proportion of Total Remuneration being 'at risk' and performance based. Allows participants to earn up to upper quartile compared with Comparator Group
Non-Executive Director Fee Framework	Purpose and Market Positioning
Fees	<p>Non-Executive Directors are paid a base fee for service to the Board and an additional fee for service to the Board committees</p> <p>The fees are set with consideration to the fees paid in companies of a similar size and complexity with the most recent benchmarking using the Comparator Group of ASX200-300 companies</p> <p>The fee pool is currently \$800,000 per annum including superannuation</p> <p>There are no retirement benefit schemes for Non-Executive Directors other than statutory superannuation contributions</p>
Minimum Shareholding Requirements	
<p>In FY21 the Board reviewed the Minimum Shareholding Policy and determined the current policy, which requires Non-Executive Directors to hold shares equivalent in value to 12 months base fees, the CEO/Managing Director and CFO to hold shares equivalent in value to 12 months of Fixed Annual Remuneration and other senior executives to hold shares equivalent in value to six months of Fixed Annual Remuneration, is adequate. Participants will be provided reasonable time to acquire these interests</p>	

3.4.4 REMUNERATION GOVERNANCE

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

Figure 1: Carbon Revolution's remuneration governance framework



3.4.5 Activities of the RNC In FY21

The RNC had three core objectives in FY21. Firstly, complete a strategic review of the LTI plan. Secondly continue to enhance the STI design. Finally, the RNC completed market benchmarking of executive remuneration to ensure remuneration and any proposed changes were consistent with remuneration principles and policies set by the Board. Details of these reviews and changes are summarised in this section.

The RNC also oversaw the effective implementation of the various rights plans that were approved at the 2020 Annual General Meeting.

Having completed a review and evaluation of the RNC in May 2020, the RNC updated its charter. For operational efficiency the Board has determined that future RNC reviews will be completed annually in November after completing and reviewing all duties under its charter and considering feedback from shareholders.

Review of the Remuneration Framework

a. Long-Term Incentive Plan

The Board completed a strategic review of the LTI plan and considered shareholder feedback in relation to the LTI plan.

This table discloses the outcomes of the strategic review determined by the Board.

Element	Explanation	Why the Board determined this
Maximum Grant Values to Executive KMP and other senior executives	No Change	Benchmarking confirmed current grants are within policy range
Performance Periods	Maintained at three years	Appropriate given age of business and market practice of similar sized organisations

Element	Explanation	Why the Board determined this
Performance Hurdles	<p>Consistent with feedback from shareholders preferring more than one performance hurdle, the business will introduce two equally-weighted performance objectives for the FY22 Plan:</p> <ol style="list-style-type: none"> relative TSR (rTSR) against the ASX 300 Constituents with the following vesting schedule: <ul style="list-style-type: none"> Below median (p50) = no vesting Median (p50) performance(target) = 50% vesting 75th percentile (stretch) = 100% vesting Straight line vesting between target and stretch a strategic objective underpinning the Company's investment in Phase 1 of the Mega-line. The Board will assess this objective in accordance with specific objectives relating to this investment <p>For the FY22 LTI Plan, the Company will remove the Indexed TSR measure against the ASX300 that was adopted in the FY21 LTI Plan</p>	<p>Alignment of shareholders and executives in having two focussed objectives rather than a single measure</p> <p>Relative TSR is an established market measure for LTI plans and is aligned with shareholder returns. The Board believes rTSR provides a sound and consistent measure that can be applied for future plans</p> <p>The investment in Phase 1 of the Mega-line represents the single biggest operational investment in the Company's history. This investment will extend across the three-year performance period. The Board firmly believes the successful implementation of the industrialisation program will significantly improve shareholder returns over the long term.</p> <p>The details of the criteria that the Board will use to assess this objective will be included in the 2021 Notice of Meeting</p>

Element	Explanation	Why the Board determined this
Form of Equity	<p>The Board has used both options (FY20 ESOP) and rights (FY21 LTI) in prior LTI plans. The Board assessed both rights and options for the FY22 LTI Plan and determined options would be basis of FY22 LTI grants</p> <p>The Board will review the form of equity for future LTI plans and determine what instrument provides the best alignment with shareholders and meets the objectives of the LTI plan</p>	<p>The Board believes for the performance period commencing in FY22, options as structured below, provide executives greater incentive to drive growth in the share price which is aligned with shareholder value</p> <p>The Board will also apply an exercise price that is sufficiently demanding that will be no lower than \$1.60 consistent with the April 2021 capital raising. This will be confirmed in the 2021 Notice of Meeting</p> <p>This further aligns with shareholders and ensures the targets are sufficiently demanding</p>

This will form the basis of the FY22 LTI grant for Executive KMP and other executives. The CEO/ Managing Director grant will be subject to shareholder approval at the 2021 Annual General Meeting.

b. Short Term Incentive Plan

The Board refined the design of the STI plan as we transition to an established ASX-listed business. The table below summarises the key changes that will apply to the FY22 STI Plan.

Element	Explanation	Why the Board determined this
Financial weighting and objectives	<p>Financial weighting will increase from 60% to 70%</p> <p>Equally-weighted financial goals will be Revenue Growth and EBITDA</p>	<p>The increased financial weighting reflects the Board's intent that delivering key financials are fundamental</p> <p>Given the STI plan is self-funded from approved budgets this approach is more aligned with shareholder interests</p>
Non-Financial Objectives	<p>Non-Financial weighting will decrease from 40% to 30%</p> <p>Corporate (10%) and safety (5%) objectives will continue to be set by the Board with strategic personal objective (15%) relevant to the role also retained</p>	<p>The Board believes that non-financial objectives focussed on operational and strategic objectives aligned with shareholder value should continue to be set, assessed and rewarded when achieved</p>

Element	Explanation	Why the Board determined this
Establishing Threshold, Target and Stretch Objectives	As we transition to an established ASX-listed business we need to improve financial settings that provide fair outcomes and incentivise Management to achieve budget or better performance Stretch STI awards will be appropriately set at 150% of target	The Board believes these design features are market relevant and provide fairer outcomes given the phase of business growth With an increased financial weighting in FY22, these measures are also designed to incentivise Management to achieve budget or better performance
Maximum STI Opportunities	Having completed market benchmarking and reviewed the level of STI deferral, maximum STI opportunities will increase for executives from 40% to 50% and for the CEO/Managing Director from 60% to 75%	The Board determined these maximum opportunities are: <ul style="list-style-type: none"> • market competitive and within the current remuneration policy for Total Remuneration • supportive of the implementation of threshold, target and stretch financial goals which improve the overall design of the plan • consistent with driving a high-performance growth culture

c. Employee ownership

In FY20, the RNC identified additional ways to promote further employee ownership of Carbon Revolution securities. The Board approved a NED fee sacrifice plan, an employee rights plan and extended the STI rights plan for all employees who were awarded a STI in FY20. Details of these plans are outlined in Table 7. These plans are designed to further align interests of employees and NEDs with shareholders while also preserving cash. These plans were implemented during FY21. In summary 952,607 rights were issued with cash savings of \$1.9m generated. The details of the rights plans as they relate to KMP are detailed in Tables 15, 16 and 22. Finally, the Board completed an assessment of progress towards the Minimum Shareholding Policy and was satisfied with progress of all KMP, Executive KMP and senior executives.

d. Non-Executive Director fees

In reviewing fees for FY22, the Board determined there would be no increases to base or committee fees.

3.4.6 Composition of Remuneration

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

i. Fixed remuneration

Fixed remuneration comprises base salary, superannuation and other eligible salary sacrifice benefits. Fixed remuneration may be substituted for employee rights where such a plan is approved by the Board and offered to employees. Fixed remuneration is targeted at the median of the market for jobs of comparable size and responsibility in the Comparator Group defined as ASX All Industries, excluding Financials and Resources, with a market capitalisation between \$200M-\$550M. In some cases, superior performance or strong market demand for specific job categories may justify above-median fixed remuneration.

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

ii. At risk remuneration – short-term incentive (STI) plan

Table 4: Details of the FY21 short-term incentive plan

Purpose	To drive individual and team performance to deliver annual business plans and increase shareholder value
Frequency and timing	Awards are determined on an annual basis with performance measured over the year to 30 June and payment made in approximately September
Financial measures	All eligible employees have a common set of financial KPIs set at the commencement of the performance period. Financial goals are weighted at 60% of the overall plan. The key financial goals in FY21 were revenue growth (30%), EBITDA (15%) and cash management (15%)
Non-financial objectives	Non-financial objectives include strategic and operational goals that are aligned to the business plan. Non-financial objectives are weighted at 40% of the overall plan. In FY21, these goals include corporate wide goals of securing new wheel programs (15%) and safety improvements (5%). Other goals relating to specific roles are weighted at 20% and include customer goals, operational improvements including quality and cost, implementation of the industrialisation program, technology and productivity
Why the performance conditions were chosen	The Board believes that having a mix of financial and non-financial KPIs will provide measurable financial performance criteria strongly linked to growth and year-on-year shareholder returns and encourage the achievement of business goals consistent with the Company's overall objectives

Assessment of performance against measures	<p>At the end of the Carbon Revolution financial year, an assessment is made of both the Company's financial performance and each participant's performance compared with the performance goals set. A review of the CEO/ Managing Director's performance is completed by the Chair and discussed by the Board. Reviews of senior executives are completed with the CEO/ Managing Director to determine performance against the relevant individual objectives</p> <p>The Board approves Executive KMP and senior executive STIs and the overall STI pool in aggregate</p> <p>These methods of assessing performance were chosen because they are, as far as practicable, objective, fair and are the most appropriate way to assess true financial performance of the Company, the Executive KMP's individual contribution and determine remuneration outcomes</p>
Board discretion	<p>The intention is to minimise discretionary adjustments to STI outcomes, however, the Board retains overriding discretion to adjust the final STI outcome. This is an important measure to ensure any STI award is appropriate in the circumstances and that performance and the creation of shareholder value is rewarded</p>
Equity deferral	<p>The EIP will be used to deliver the deferred equity component of STI awards. Typically, any STI award to Executive KMP and senior executives will be delivered 50% in cash and 50% in Rights. In FY20 and FY21 the Board determined that all participants would have 100% of their STI outcome delivered in Rights, with 50% subject to a 12-month service condition and the other 50% granted as fully vested. This decision was made to further align employees with shareholders while also preserving cash</p> <p>A Right entitles the participant to acquire a Share at no cost on vesting, subject to the satisfaction of vesting conditions. Rights do not carry dividend or voting rights prior to vesting. Shares allocated on vesting of Rights carry the same dividend and voting rights as other Shares</p> <p>Under the EIP rules the Board has broad clawback powers if, for example, the participant has acted fraudulently or dishonestly or there is a material financial misstatement</p> <p>For FY19 awards granted during FY20, the number of Rights granted to each participant was determined by dividing the value of the equity component of the participant's STI award by the listing price as set out in the 2019 Prospectus. For subsequent years the number of Rights granted is determined by the volume weighted average price (VWAP) of Shares traded on ASX during the 20 trading day period following release of the full-year financial results</p>

Cessation of Employment	<p>Unless the Board determines otherwise:</p> <ul style="list-style-type: none"> • if a participant's employment is terminated for cause or a participant resigns (or gives notice of their resignation), all of their unvested Rights will lapse; and • if a participant ceases employment for any other reason (such as retirement, redundancy, death, total & permanent disability, or termination by mutual agreement), the Rights will remain and will vest in the ordinary course.
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iii. At risk remuneration – long-term incentive (LTI) plan

Carbon Revolution's LTI program aims to:

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

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

The detail of the LTI Plans offered to Executive KMP are detailed in Table 5 and Table 6 below:

Table 5: Summary of the FY20 ESOP Award

Eligibility	CEO/Managing Director, senior executives and a small number of other key staff were eligible for the ESOP Award as approved by the Board
Grant frequency	A one-off award
Type of award	Options which entitle the participant to acquire a Share on vesting and exercise, subject to the satisfaction of vesting conditions and payment of an exercise price
Quantum of Grants	<p>As set out in the prospectus the ESOP Award was capped at 4% of the issued share capital of the Company at the time of Listing. 5,093,678 Options were issued under the ESOP Award</p> <p>The grants of Options were made following extensive market benchmarking of other companies who recently listed on the ASX. The Board approved the ESOP grant in recognition of the extensive work completed to build the business, for achieving listing on 29 November 2019 and to further align long- term interests of senior executives with shareholders. Further details are provided in Table 17</p>
Grant Date	Options were granted shortly after listing on 23 December 2019

Issue and exercise price	<p>The Options were issued to the participant at no cost. Grants were determined using the \$2.60 listing price as set out in the 2019 Prospectus and no discounts were applied</p> <p>Participants must pay an exercise price to exercise their Options. The exercise price for Options issued under the ESOP will be the offer price on listing of \$2.60</p> <p>The Board retains a discretion to make a cash payment to participants on vesting and exercise of the Options in lieu of an allocation of Shares</p>
Vesting and performance period	<p>The Options vest three years from the date of Listing, on 29 November 2022</p> <p>Options will vest at the end of the vesting period, subject to the cessation of employment provisions outlined below. Participants will be required to pay an exercise price to exercise their Options which acts as a “share price” hurdle. There are no other specific performance conditions attaching to the Options as the ESOP Award was to reward executives for building the business and for achieving listing</p>
Exercise of options	<p>Participants may exercise any vested Options from the date the Options vest until the fifth anniversary of the date on which the Options are granted. After that time, any unexercised Options will lapse</p> <p>In order to exercise an Option, a participant must submit an exercise notice and pay the exercise price</p>
Dividends and voting rights	<p>Options do not carry dividend or voting rights prior to vesting and exercise. Shares allocated on exercise of Options carry the same dividend and voting rights as other Shares</p>
Cessation of employment	<p>Unless the Board determines otherwise:</p> <ul style="list-style-type: none"> • if a participant’s employment is terminated for cause or a participant resigns (or gives notice of their resignation) prior to the vesting date, all of their unvested Options will lapse • if a participant ceases employment for any other reason (such as retirement, redundancy, death, total & permanent disability, or termination by mutual agreement) prior to the vesting date, all of their unvested Options will remain on foot and vest in the ordinary course • all vested Options will remain on foot if a participant ceases employment after the vesting date and must be exercised within 90 days
Restrictions on dealing	<p>Prior to vesting, the Plan Rules provide that participants must not sell, transfer, encumber, hedge or otherwise deal with their incentives. After vesting, participants will be free to deal with their incentives, subject to the Securities Dealing Policy</p>
Clawback and preventing inappropriate benefits	<p>The Board has broad clawback powers if, for example, the participant has acted fraudulently or dishonestly or there is a material financial misstatement</p>

Change of control	<p>If there is a takeover bid or the Board considers a change of control is likely to occur, the Board has the discretion to accelerate vesting of some or all of a participant's unvested Options. Where only some of the Options vest, the remainder will lapse, unless the Board determines otherwise. Any vested but unexercised Options will be exercisable for a period of 60 days or otherwise for a period notified by the Board and will lapse after the end of that period if they are not exercised</p> <p>If an actual change of control occurs before the Board has exercised its discretion, all unvested Options will vest and participants will have 60 days to exercise vested Options</p>
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Table 6: Summary of the FY21 LTI Award

Eligibility	CEO/Managing Director, CFO and senior executives were eligible for the FY21 LTI Plan as approved by the Board
Grant frequency	A one-off award
Type of award	Performance Rights which entitle the participant to acquire a Share at nil cost on vesting, subject to the meeting the vesting conditions
Quantum of Grants	<p>Maximum grant values were made consistent with market benchmarking and policies set by the Board. For the CEO/Managing Director the maximum grant value was equal to 75% of Fixed Annual Remuneration. For the CFO and other executives, the maximum grant value was equal to 60% of Fixed Annual Remuneration</p> <p>The maximum number of Performance Rights allocated was calculated by taking the maximum grant value and dividing this amount by the VWAP of a Share over the 20 trading days following the release of the Company's FY20 full-year financial results (on 25 August 2020), being \$2.012</p> <p>Further details are provided in Table 17</p>
Grant Date	Performance Rights were granted on 12 November 2020 after the AGM
Issue price	The Performance Rights were issued to the participants at no cost

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Vesting and performance period	<p>The period commenced on 21 September 2020 and ends on 20 September 2023</p> <p>Under the FY21 Grant, the number of Rights that vest will be determined by the Board by reference to a comparison of the compound annual growth rate (CAGR) in the Company's TSR relative to the CAGR of the ASX300 Index over the Performance Period. The Board determined that this performance hurdle was sufficiently demanding, aligned with long-term shareholder interests and provided fair reward opportunities for participants.</p> <p>In order to smooth out the impact of short-term share price fluctuations, averaging periods will be used to determine the start and end share prices when calculating the Company's TSR and ASX300 Index. The start Share price will be based on the VWAP for the 90 days up to (but not including) the first day of the Performance Period. The end Share price will be based on the VWAP for the 90 days up to and including the final day of the Performance Period.</p> <p>Vesting will occur based on the following schedule, where the benchmark is the ASX300 Index CAGR over the Performance Period:</p> <table> <tr> <th>Level of achievement</th><th>Percentage of Rights that will vest</th></tr> <tr> <td>Below the benchmark</td><td>Nil</td></tr> <tr> <td>Equal to the benchmark</td><td>25%</td></tr> <tr> <td>Between benchmark and maximum</td><td>Straight line pro-rata vesting between 25% and 100%</td></tr> <tr> <td>Outperform the benchmark by at least 75% (maximum)</td><td>100%</td></tr> </table> <p>The Board will test the relative TSR performance condition following the end of the Performance Period and determine the appropriate vesting outcome. The Board retains discretion to adjust the relative TSR performance condition (or the approach to measurement of the relative TSR performance condition) so participants are neither advantaged nor disadvantaged by exceptional circumstances or matters outside Management's influence that materially affect achievement of the relative TSR performance condition.</p>	Level of achievement	Percentage of Rights that will vest	Below the benchmark	Nil	Equal to the benchmark	25%	Between benchmark and maximum	Straight line pro-rata vesting between 25% and 100%	Outperform the benchmark by at least 75% (maximum)	100%
Level of achievement	Percentage of Rights that will vest										
Below the benchmark	Nil										
Equal to the benchmark	25%										
Between benchmark and maximum	Straight line pro-rata vesting between 25% and 100%										
Outperform the benchmark by at least 75% (maximum)	100%										
Exercise of Performance Rights	<p>Once the Performance Conditions have been assessed and the level of vesting has been determined, the vested Rights will be automatically exercised, and participants will be allocated one Share for each vested Right at nil cost.</p> <p>The Board retains discretion to make a cash equivalent payment to participants in lieu of an allocation of Shares.</p>										
Dividends and voting rights	<p>Performance Rights do not carry dividend or voting rights prior to vesting and exercise. Shares allocated on exercise of Options carry the same dividend and voting rights as other Shares</p>										

Cessation of employment	<p>Subject to the Board's discretion, if employment ceases prior to the Vesting Date of Rights by reason of termination for cause or by resignation, or notice of resignation, all unvested Rights will automatically lapse</p> <p>If employment ceases for any other reason (such as retirement, redundancy, death, total & permanent disability, or termination by mutual agreement) prior to vesting, a pro-rata portion of unvested Rights based on the proportion of the Performance Period that has elapsed up to the date of cessation will remain on foot and will be performance tested at the end of the Performance Period. To the extent that the relevant performance conditions are satisfied Rights will vest on the Vesting Date</p>
Restrictions on dealing	<p>Prior to vesting, the Plan Rules provide that participants must not sell, transfer, encumber, hedge or otherwise deal with their incentives. After vesting, participants will be free to deal with their incentives, subject to the Securities Dealing Policy</p>
Clawback and preventing inappropriate benefits	<p>The Board has broad clawback powers if, for example, the participant has acted fraudulently or dishonestly or there is a material financial misstatement</p>
Change of control	<p>In the event of a takeover bid or the Board considers a change of Control (as defined in the Plan Rules) is likely to occur, the Board has the discretion to accelerate vesting of some or all of the unvested Rights based on performance. Where only some of the Rights vest, the remainder will lapse, unless the Board determines otherwise. If an actual change of Control occurs before the Board has exercised its discretion, all unvested Rights will vest</p>

iv. Other equity incentive plans

Table 7: Other equity incentive plans

FY21 Employee Rights Plan	
Purpose	To encourage share ownership by enabling employees to choose an amount of base salary to be delivered in Rights
Eligibility	All employees except Non-Executive Directors, and eligible contractors

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Form and quantum of award	<p>The amount of base salary Executive KMP can choose to have delivered in Rights above the mandatory minimum amount of \$20,000 cannot exceed 50% of base salary</p> <p>The Company provides an additional allocation of Matched Rights at no cost. The value of Matched Rights is equal to 50% of the value of Base Rights (up to a maximum value of \$2,500 of Matched Rights)</p> <p>The number of Rights awarded is determined using the following formula:</p> $\frac{\text{Employee Rights Value}^1}{\text{Allocation Price}^2}$ <p>The Period where base salary is delivered in Rights extends from 12 October 2020 until 20 June 2021</p> <p>Further details are provided in Table 16</p>
Vesting period	<p>Subject to continued employment with the Company, Rights vest on the relevant Vesting Dates:</p> <ul style="list-style-type: none"> • Base Rights: On a pro-rata basis over the Period in equal monthly instalments on the last day of each month (such that Base Rights are fully vested by 30 June 2021) • Matched Rights: In full on 30 June 2021
Exercise period	<p>Vested Rights may be exercised by the participant within the Exercise Period. The Exercise Period is the period commencing when the Rights vest and ending on the Expiry Date. The Expiry Date is the 10-year anniversary of the Grant Date. There will be nominated exercise windows during the year which sit within trading windows in accordance with the Securities Dealing Policy</p>
Absence of a performance condition	<p>The plans are paid for by participants from their base remuneration and are designed to encourage share ownership for employees and therefore do not have any performance conditions attached</p>
Dividends and voting rights	<p>Base Rights and Matched Rights do not entitle participants to dividends and other distributions or voting rights</p>
Cessation of employment	<p>Subject to the Board's discretion, if a participant ceases employment for any reason prior to Rights vesting, the Rights will lapse on the date of their cessation. In this case, the participant will be paid the amount equal to the base remuneration that has been contributed towards their Participant Contribution (but has not yet vested) from the start of the relevant Participation Period up until the date of cessation. If a participant ceases employment prior to exercising vested Rights, the vested Rights must be exercised within ninety (90) days following the date employment ceased. Any vested Rights which are not exercised by the end of this period will lapse with the relevant PAYG tax withholding withheld from the payment immediately. Entitlement to Matched Rights will be forfeited if the participant ceases employment prior to 30 June in the relevant financial year</p>

1 Employee Rights Value is the sum of the value of the Base Rights and the Matched Rights (as determined above)

2 The Allocation Price is the VWAP of a Share over the 20 trading days following the announcement of the Company's FY20 full-year results, being \$2.012

Changes	Executives may only withdraw from the Plan or vary participation in the Plan with Board approval. If a participant withdraws from the Plan, their unvested Rights will lapse and the relevant portion of their Participant Contribution (if any) will be refunded
Clawback and preventing inappropriate benefits	Under the Plan the Board has broad clawback powers if, for example, the participant has acted fraudulently or dishonestly or there is a material financial misstatement
Change of Control	Subject to the Board's discretion to determine otherwise, all unvested FY21 Employee Rights will vest and become exercisable on a change of control (as defined in the Plan Rules)

FY21 NED Fee Sacrifice Plan

Purpose	To encourage share ownership by enabling NEDs to choose an amount of pre-tax cash director fees to be delivered in Rights
Eligibility	Mandatory, in FY21, for all NEDs to participate in this Plan, to a minimum level of 20% of fees for the Participation Period
Form and quantum of award	<p>NEDs may sacrifice, on a pre-tax basis, between 20% (a mandatory minimum) and up to 100% (in increments of 20%) of their fees</p> <p>The Participation Period over which the fee sacrifice occurred in FY21 was from 1 October 2020 to 30 June 2021</p> <p>The number of NED Rights granted will be determined by dividing the Participant Contribution by the Allocation Price (being the VWAP of a Share over the 20 trading days following the announcement of the Company's full-year results), being \$2.012</p> <p>A NED Right is an entitlement to receive one fully-paid ordinary Share in the Company</p> <p>NED Rights for FY21 were granted on 12 November 2020.</p> <p>Further details are provided in Table 22</p>
Exercise Period and Conversion Date	<p>NED Rights are automatically exercised and convert to restricted shares at no cost to the Director on the Conversion Date</p> <p>The Conversion Date was 26 February 2021 as long as the Director held office as a Director of the Company</p>
Restriction Period	<p>Shares allocated on exercise of NED Rights will be subject to a trading restriction from the Conversion Date and ending 15 years from the Grant Date for the NED Rights (or such shorter period elected by the Director).</p> <p>The minimum Restriction Period for all Shares allocated under the Plan is one year from the Conversion Date for the NED Rights</p>
Absence of a performance condition	The NED Rights are paid for by Directors from their base fees and are designed to encourage share ownership for NEDs and therefore do not have any performance conditions attached. Additionally, the Board did not include a performance condition that could be seen to impact their independence

Dividends and voting rights	NED Rights do not entitle participants to dividends and other distributions or voting rights until the Conversion Date. Once converted to restricted shares, dividends and other distributions and voting rights will apply
Ceasing to hold office	<p>Where a participant ceases to hold office as a Director of the Company before the Conversion Date, all their NED Rights will lapse at cessation and Shares will not be allocated. In this case, the participant will be paid, in cash (net of taxation and superannuation), the amount equal to the Fees that have already been sacrificed towards their Participant Contribution from the start of the Participation Period up until the date of cessation. Where a participant ceases to hold office as Director of the Company after the Conversion Date but before the end of the Restriction Period, any trading restrictions applicable to the shares will be lifted immediately and the participant will be free to sell or otherwise deal in those shares provided all of their corresponding Participation Contribution has been made (subject to complying with applicable law and the Securities Dealing Policy)</p> <p>If Rights have converted to Shares but the Participant Contribution has not been made in full, the outstanding Participant Contribution will be contributed from any remaining Fees and, to the extent any further Participant Contribution remains outstanding, will be required to be paid from the Participants own funds</p>
Change of Control	If a Change of Control (as defined in the Plan Rules) occurs, the Board has ultimate discretion to determine the treatment that will apply to any NED Rights and / or Shares that are still subject to trading restrictions. Generally, subject to the Board determining otherwise, NED Rights will convert to Shares and trading restrictions attached to Shares will cease on a Change of Control
FY20 STI Rights Plan	
Purpose	To encourage share ownership by awarding FY20 STI incentives in equity
Eligibility	All employees with the minimum employment tenure are eligible for a FY20 STI award
Form and quantum of award	<p>STI Rights granted were calculated as follows:</p> <ul style="list-style-type: none"> Participant's fixed annual remuneration inclusive of superannuation multiplied by the maximum STI opportunity % multiplied by the STI payout ratio determined by the Board for FY20 being 45% The Allocation Price used is the VWAP of a Share over the 20 trading days following the announcement of the Company's FY20 full-year results. The 20 day period commenced on 25 August 2020 and concluded on 21 September 2020 and the Allocation Price was \$2.012 <p>Further details are provided in Table 15</p>
Vesting period	For Executive KMP and executives, 50% of STI Rights will immediately vest following grant. The remaining 50% of STI Rights will vest 12 months following the Grant Date, subject to continued employment with the Company

Exercise Period	Vested STI Rights may be exercised by the participant within the Exercise Period. The Exercise Period is the period commencing when STI Rights vest (at the Grant Date for 50% of STI Rights and 12 months following the Grant Date grant for the remaining 50% of STI Rights, subject to continued employment) and ending on the Expiry Date. The Expiry Date is the 10-year anniversary of the Grant Date. There will be nominated exercise windows during the year which sit within trading windows in accordance with the Securities Dealing Policy
Cessation of employment	Subject to the Board's discretion, if the participant ceases employment prior to STI Rights vesting by reason of termination for cause or by resignation, all unvested Rights will automatically lapse. If Rights do not lapse upon cessation, unvested Rights will generally continue "onfoot" to vest in the ordinary course. Vested Rights must then be exercised within ninety (90) days of vesting (or the Rights will lapse)
Absence of a performance condition	There are no additional performance conditions in relation to the STI Rights as the number of rights granted has been determined by the Board based on achievement of financial and non-financial targets for FY20
Dividends and voting rights	STI Rights do not entitle participants to dividends and other distributions or voting rights
Clawback and preventing inappropriate benefits	Under the Plan Rules, the Board has broad clawback powers if, for example, the participant has acted fraudulently or dishonestly or there is a material financial misstatement
Change of Control	Subject to the Board's discretion to determine otherwise, all STI Rights will vest (if applicable) and automatically convert to Shares on a change of control (as defined in the Plan Rules)
Tax Exempt Employee Share Ownership Plan (TESP)	
Purpose	To encourage share ownership by enabling employees to benefit from favourable Australian tax treatment
Eligibility	All employees (except executives, CEO/Managing Director and Directors), who have the equivalent of at least six months service at the date the shares are allotted
Form and quantum of award	Each year, the Board approves the allocation of shares up to a maximum value of \$1,000 (being the limit of the tax exemption) at no cost for each eligible participant
Vesting period	Shares vest immediately upon acquisition by participants. The shares can only be sold three years after the date of grant, unless the participant's employment ceases before then
Absence of a performance condition	The Plan is designed to encourage share ownership for employees and therefore does not have any performance conditions attached
Dividends and voting rights	Participants are entitled to dividends and other distributions and have full voting rights

3.4.7 Linking Remuneration to Performance

A key underlying principle of Carbon Revolution's executive remuneration strategy is the link between company performance and executive reward. This section outlines how key financial and non-financial performance have driven remuneration outcomes. Tables 8, 9 and 10 summarise key performance measures for financial and non-financial objectives. Table 11 provides the FY21 outcomes approved by the Board for Executive KMP. No LTI plan has reached the end of the performance period, however ESOP and the FY21 LTI plan have been linked to company performance as the value of options and rights ultimately depends on share price performance and achievements against the performance measure.

As Carbon Revolution only listed on the ASX on 29 November 2019 it is not possible to address the statutory requirement that Carbon Revolution provides a five-year explanation of the link between company performance and remuneration. Table 9 will be expanded in future years to address this requirement.

The Board assessed the financial and non-financial performance in determining the STI outcomes for Executive KMP and other participants. The Board believes that financial and strategic targets that drive the growth of the business will deliver sustainable shareholder value and weighted these accordingly. The Board determined that 40% of maximum STI opportunities would be awarded. Table 11 provides the FY21 STI outcomes approved by the Board for Executive KMP.

Board Discretion

In reaching the FY21 STI determination, the Board thoroughly assessed the impact of COVID-19 and global shortage of semi-conductors on the Company's financial and non-financial results. Despite these impacts the Board only exercised its discretion in relation to the cash management objective to provide fair outcomes for Executive KMP as set out in Table 11. The Board also exercised its discretion to determine that all participants would have their entire STI outcome delivered in the form of Rights. This decision was made to further align employees with shareholders while also preserving cash. Fifty per cent of Rights awarded to Executive KMP and senior executives in FY20 and FY21 will remain subject to a 12-month continuous service condition. Further details of this for Executive KMP are provided in table 15.

i. *STI and financial measures*

Table 8: Financial Goals and achievements

Performance area	Weighting	Performance and Award
Revenue Growth	30%	Nil award – below target set. Revenue was negatively impacted with one key customer cancelling forecast purchases for approximately six months due to COVID-19 and another key customer cancelling forecast orders due to an extended plant shutdown as a result of the global semi-conductor chip shortage. Whilst the Board assessed the impact of these external events on the revenue target, the Board did not apply any discretion and as a result no award was made for this objective
Cash Management	15%	Awarded at 15% - above the target set. Management achieved a range of cash positive objectives ahead of target especially in the areas of working capital, labour savings and deployment of employee equity schemes. The Board excluded the capital raising completed in April 2021 in determining their assessment of performance. The Board did exercise its discretion in relation to a strategic growth project (\$1.5m), the impact of semi-conductor chip shortage on revenue (\$3.1m) and re-negotiated terms with a key client (\$5.5m) that was not budgeted
EBITDA	15%	Nil award - below target set. Whilst EBITDA was negatively impacted by COVID-19 (both revenue and cost), the global shortage of semi-conductors and one-off transaction costs, the Board did not exercise its discretion on this component

Table 9: Key Indicators of financial performance and shareholder returns

	Financial performance					
	Revenue (\$ million)	EBITDA (\$million)	Dividend (cents)	Total Shareholder Return % ¹	Earnings Per Share (\$)	Closing Share at 30 June (\$)²
FY21	34.9	-19.5	nil	-39.7	-0.20	1.11
FY20	38.9	-17.1	nil	-29.2	-1.14	1.84

- 1 TSR for FY2020 is calculated as the change in share price since listing on the ASX plus dividends paid during the financial year divided by the opening share price on listing being 29 November 2019. This differs to the full-year TSR where existing shareholders prior to listing were able to realise part of their investment. TSR for FY21 is calculated as the change in share price from 1 July 2020 – 30 June 2021 on the ASX plus dividends paid during the financial year divided by the share price at the commencement of the financial year.

- 2 The listing price on listing on the ASX on 29 November 2019 was \$2.60.

ii. **STI and non-financial measures**

Each year the Board approves a range of strategic and operational goals that support the growth of the business. Table 10 summarises the key non-financial goals and assessments of performance made by the Board.

Table 10: Non-financial goals and achievements

Performance area	Weighting and Measure	Performance and Award
Workplace Health, Safety (WHS)	5% Medical Treatment Injury Frequency Rate (MTIFR)	Nil Award – Below Target. Whilst safety performance continues to be ahead of industry benchmarks, performance was below the target set
New Wheel Programs	15% Secure new wheel programs that underpin Mega-line Phase 1 investment	Awarded at 15% – Above Target. Business development activities resulted in securing formal agreements relating to four new programs expected to enter production in CY2023 and CY2024. The expected volumes for these four new programs underpin the decision to progress Phase 1 of the Mega-line to increase capacity by 75,000 wheels and completion of the \$95m capital raise
Personal Objectives	20% Customers, Technology, Business Development, Productivity Yield, Quality	Awarded at target – achievements included advancement of the industrialisation program with further automation of production processes, development and implementation of new technology, implementation of new business systems and securing re-financing of the Ronal debt with EFA and a \$7.5M working capital facility, ongoing customer development for future wheel programs, enhancing leadership capability through key executive appointments, and ensuring business continuity plans in response to the COVID-19 pandemic

Table 11: FY21 STI Awards

	FY21 STI Awarded ¹			
	\$ Maximum STI opportunity	\$ STI Awarded	% of Max STI Awarded	% of Max STI Forfeited
CEO/Managing Director – Jake Dingle	300,000	120,000	40	60
Chief Financial Officer – Gerard Buckle	140,000	56,000	40	60

iii. *Long Term Incentive Plan*

No LTIs vested given LTI plans were introduced for FY20 and FY21 and neither have reached the end of their performance period.

1 As part of approving the FY21 STI awards, the Board determined that Executive KMP and senior executives would have 100% of their STI outcome delivered in Rights with 50% of that deferred and subject to a 12month service condition. The number of STI Rights awarded will be calculated by dividing the \$STI awarded by the 20-day VWAP of Shares traded on ASX during the 20 trading day period following release of the full-year financial results. The minimum value of this award is nil and the maximum value will be determined by the share price of the Company.

3.4.8 Service Agreements

CEO/Managing Director – Executive service agreement

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

Table 12: CEO/Managing Director's remuneration package

Fixed remuneration	Fixed annual remuneration of \$500,000 inclusive of superannuation contributions effective from 2 September 2019. Fixed remuneration is reviewed annually. Increases are not guaranteed
Notice period	Under the Executive's Service Agreement there is no fixed term and Mr Dingle's employment can be terminated by: <ul style="list-style-type: none">• the Company giving him twelve months' notice of termination; or• Mr Dingle giving six months' notice of resignation
STI	There is no minimum entitlement to an STI payment and the maximum STI opportunity is 60% of fixed annual remuneration for exceptional performance. Under the STI deferral plan, typically 50% of the STI value will be deferred into Rights which vest in twelve months. Further detail on the STI deferral plan is contained in Table 4
LTI	Details of the FY21 LTI Plan and performance conditions set by the Board are set out in Table 6. For Mr Dingle, the maximum value of any award of LTI Rights is set at a maximum of 75% of fixed annual remuneration

Chief Financial Officer – Executive service agreement

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

Table 13: Chief Financial Officer's remuneration package

Fixed remuneration	Fixed annual remuneration of \$350,000 inclusive of superannuation contributions effective from 9 September 2019. Fixed remuneration is reviewed annually, but with no guarantee of an increase
Notice period	Under the Executive's Service Agreement, there is no fixed term, and Mr Buckle's employment can be terminated by: <ul style="list-style-type: none">• the Company giving him six months' notice of termination; or• Mr Buckle giving six months' notice of resignation
STI	<p>There is no minimum entitlement to an STI payment and the maximum STI opportunity is 40% of fixed annual remuneration for exceptional performance.</p> <p>Under the STI deferral plan, typically 50% of the STI value will be deferred into Rights which vest in twelve months. Further detail on the STI deferral plan is contained in Table 4</p>
LTI	Details of the FY21 LTI Plan and performance conditions set by the Board are set out in Table 6. For Mr Buckle, the maximum value of any award of LTI Rights is set at a maximum of 60% of fixed annual remuneration
Transition Benefit	To attract high calibre talent, it is customary market practice to compensate new employees for the loss of earned but unpaid variable remuneration with their previous employer. As a result, Mr Buckle was granted 100,962 shares on Listing with a face value of \$262,501 which will vest on 9 September 2021, subject to Mr Buckle remaining employed on that date. No other performance conditions apply as this award was made in lieu of unpaid variable remuneration Mr Buckle would have received from his previous employer

3.4.9 Statutory Remuneration

Remuneration of the CEO/Managing Director and Chief Financial Officer

The remuneration table below shows total remuneration expensed for accounting purposes for executive KMP in FY21.

Table 14: Executive KMP statutory remuneration for full year to 30 June 2021

\$ Year end	Short-term Employee Benefit			Post Employment Benefits	Share-based Payment					Total	'Performance based' ¹	
	Salary	Other benefits	Leave benefits	Super-annuation	Salary Granted as Base Rights ²	FY21 Matched Rights ³	STI Expense ⁴	LTI Expense ⁵	One-off Equity Award ⁶		STI	LTI
CEO/Managing Director – Jake Dingle												
2021	369,230	-	36,538	25,000	69,232	2,500	212,608	358,679	-	1,073,787	20%	33%
2020	466,225	-	34,811	25,000	-	-	167,762	140,591	-	834,389	20%	17%
Chief Financial Officer – Gerard Buckle												
2021	257,153	-	11,153	21,694	60,000	2,500	72,887	125,237	131,250	681,874	13%	23%
2020	233,681	-	10,415	15,752	-	-	38,188	39,366	106,079	443,481	11%	12%
Total Executive KMP⁷												
2021	626,383	-	47,691	46,694	129,232	5,000	285,495	483,916	131,250	1,755,661	-	-
2020	737,826	-	46,005	60,029	-	-	205,950	179,957	106,079	1,335,846	-	-

- 1 STI and LTI as a percentage of total remuneration. For Mr Buckle the one-off equity award has been removed from the Total to provide a better disclosure of the performance-based components.
- 2 Salary contributed to the FY21 Employee Rights Plan.
- 3 The value of Matched Rights allocated in the FY21 Employee Rights Plan
- 4 STI expense for FY21 plus amortisation of STI relating to prior years grants.
- 5 ESOP and FY21 LTI grants are expensed over the vesting period at a valuation determined on grant date by a third party detailed in Table 17.
- 6 Total expense of the one-off equity grant made to Mr Buckle on 29 November 2019 as a sign on award to replace a portion of an incentive from his previous employer which he forfeited on joining Carbon Revolution. The face value of these shares was \$262,501 and they vest upon completion of two years' service.
- 7 The Total Executive KMP for 2020 includes expensed remuneration for the prior CFO that was disclosed in the 2020 Remuneration Report.

3.4.10 STI Deferred Rights and Vested STI Rights

Table 15: STI deferred rights and non-deferred STI Rights for Executive KMP

Typically, any STI award to Executive KMP and senior executives will be delivered 50% in cash and 50% in Rights deferred for 12 months. In FY20 and FY21 the Board determined that all participants would have 100% of their STI outcome delivered in Rights, with 50% subject to a 12-month service condition (deferred) and the other 50% granted as fully vested.

Number of STI Deferred Rights and Vested STI Rights											
	Plan	Balance 1 July 2020	Granted as Remuneration	Vested and Exercised ¹	Lapsed	Balance 30 June 2021 ²	Grant Date	Vesting Date	Expiry Date	Face Value	Fair Value
CEO/ Managing Director – Jake Dingle ³	FY20 Vested STI	-	33,549	-	-	33,549	12-Nov-20	12-Nov-20	12-Nov-30	2.012	2.65
	FY20 STI Deferral	-	33,548	-	-	33,548	12-Nov-20	12-Nov-21	12-Nov-30	2.012	2.012
	FY19 STI Deferral	35,006	-	35,006	-	-	23-Dec-19	16-Oct-20	23-Dec-29	2.60	3.80
Chief Financial Officer – Gerard Buckle	FY20 Vested STI	-	12,654	-	-	12,654	2-Oct-20	2-Oct-20	2-Oct-30	2.012	2.77
	FY20 STI Deferral	-	12,653	-	-	12,653	2-Oct-20	2-Oct-21	2-Oct-30	2.012	2.012
	FY19 STI Deferral	-	-	-	-	-	-	-	-	-	-

- Deferred rights relating to FY19 STI with grant date of 23 December 2019. The number of rights granted to each participant was calculated using the offer price at time of listing of \$2.60. These rights vested on 16 October 2020 consistent with the STI deferral plan.
- The closing balance of deferred rights at 30 June 2021 represents unvested rights for FY20 STI. The number of Rights allocated is calculated by dividing the STI Awarded by the 20-day VWAP of Shares traded on ASX during the 20 trading day period following release of the full-year financial results (on 25 August 2020), being \$2.012. Rights for the FY21 STI will be granted in November 2021.
- Mr Dingle was granted 33,548 STI Rights as part of his remuneration package approved at the 2020 Annual General Meeting under Listing Rule 10.14. This grant relates to the FY20 STI Award.

3.4.11 FY21 Employee Rights

To encourage share ownership Executive KMP were able to choose an amount of their FY21 base salary to be delivered in Rights.

Table 16: FY21 Employee Rights

Number of FY21 Employee Rights										
	Balance 1 July 2020	Rights Purchased	Matching Rights	Rights Vested and Exercised	Lapsed	Balance 30 June 2021	Grant Date Commencing	Face Value	Fair Value	Vesting Date ¹
CEO/Managing Director – Jake Dingle ²		34,407	1,243	-	-	35,650	Nov-20	2.012	\$2.58	Nov-20 to 30 June-21
Chief Financial Officer – Gerard Buckle		29,820	1,243	-	-	31,063	Nov-20	2.012	\$2.58	Nov-20 to 30 June-21

3.4.12 Long Term Incentives

As detailed in Tables 5 and 6, Executive KMP are granted awards as part of the long-term incentive plans. Incentives only vest if the performance and service conditions of the Plan are met.

Table 17: Executive KMP ESOP Options

Number of FY20 ESOP Options and FY21 LTI Rights												
	Plan	Balance 1 July 2020	Granted as Remuneration	Vested and Exercised	Lapsed	Balance 30 June 2021	Grant Date	Vesting Date	Expiry Date	Exercise Price	Face Value ³	Fair Value ⁴
CEO/ Managing Director – Jake Dingle ⁵	FY21 Rights	-	186,381	-	-	186,381	12-Nov-20	20-Sep-23	20-Sep-23	nil	\$2.012	\$2.16
	FY20 ESOP Options	1,273,419	-	-	-	1,273,419	23-Dec-19	29-Nov-22	29-Nov-24	\$2.60	\$2.60	\$0.77
Chief Financial Officer – Gerard Buckle	FY21 Rights	-	104,373	-	-	104,373	12-Nov-20	20-Sep-23	20-Sep-23	nil	\$2.012	\$2.16
	FY20 ESOP Options	356,557	-	-	-	356,557	23-Dec-19	29-Nov-22	29-Nov-24	\$2.60	\$2.60	\$0.77

- 1 Base rights purchased vested on a monthly basis commencing from November 2020 to June 2021. Matched rights vested on 30 June 2021.
- 2 Mr Dingle was granted 35,650 FY21 Employee Rights as part of his remuneration package approved at the 2020 Annual General Meeting under Listing Rule 10.14. This grant relates to the FY21 Employee Rights Plan. The minimum value of the award is nil and the maximum value will be determined by the share price at the time of vesting.
- 3 The face value of each FY21 LTI Right was determined using a 20-day VWAP of a Share over the 20 trading days following the release of the Company's FY20 full-year financial results (on 25 August 2020), being \$2.012.
- 4 The fair value is provided by a third-party valuation at the time of grant.
- 5 The maximum number of FY21 LTI Rights allocated was calculated by taking the maximum grant value consistent with policies set by the Board and dividing this amount by the VWAP of a Share over the 20 trading days following the release of the Company's FY20 full-year financial results (on 25 August 2020), being \$2.012. The minimum value of the award is nil and the maximum value will be determined by the share price at the end of the performance period.

3.4.13 Executive KMP Shareholdings

Table 18: Executive KMP shareholdings

	Number of Carbon Revolution shares ¹					Balance 30 June 2021
	Balance 1 July 2020	Granted as Remuneration	Acquired	Sold or transferred	Other	
CEO/Managing Director – Jake Dingle ²	4,036,975	-	6,250	-	35,006	4,078,231
Chief Financial Officer – Gerard Buckle ³	133,527	-	-	-	-	133,527

3.4.14 Non-Executive Director Remuneration

Policy and Arrangements

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

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

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

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

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

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

- 1 Carbon Revolution shares in which Executive KMP has a beneficial interest, including via related parties and spousal shareholders.
- 2 Mr Dingle had 35,006 FY19 STI deferred rights that vested on 16 October 2020. These relate to the FY19 STI Plan. Mr Dingle has 4,019,443 shares subject to mandatory escrow until 29 November 2021 that are held through a related party since listing.
- 3 Includes 100,962 shares issued to Mr Buckle as part of his employment contract and which requires Mr Buckle to be in employment with the Company until 9 September 2021 for these shares to fully vest. The minimum value of this award is nil and the maximum value will be determined by the share price of the Company.

Table 19: Non-Executive Director (NED) fee schedule

Role	Annual fee for FY21 (including super guarantee)
Chair (base fees)	\$180,000
Other NED (base fees)	\$90,000
Chair of the Audit and Risk Committee	An additional \$10,000
Chair of the Remuneration and Nomination Committee	An additional \$10,000
Committee memberships	An additional \$5,000 per committee

Following benchmarking in FY21, the Board has determined not to increase NED fees for FY22.

Table 20: Non-Executive Directors' fees paid

Year ended 30 June 2021		Directors' fees \$	Directors' Fees Allocated in Rights \$	Superannuation \$	Total \$
James Douglas (Chair)	FY21	119,692	56,792	11,592	188,076
	FY20	168,950	-	16,050	185,000
Bruce Griffiths	FY21	35,125	-	3,337	38,462
	FY20	91,324	-	8,676	100,000
Lucia Cade	FY21	62,254	29,792	6,031	98,077
	FY20	86,758	-	8,242	95,000
Dale McKee	FY21	63,820	30,000	6,180	100,000
	FY20	91,324	-	8,676	100,000
Mark Bernhard	FY21	34,502	56,998	3,500	95,000
	FY20	86,758	-	8,242	95,000
Peter Lewinsky	FY21	47,567	42,747	4,686	95,000
	FY20	86,758	-	8,242	95,000
Total Non-Executive Directors	FY21	362,960	216,329	35,326	614,615
	FY20	611,872	-	58,128	670,000

3.4.15 Shareholdings

Table 21: Non-Executive Directors' shareholdings

	Number of Carbon Revolution shares ¹				Balance 30 June 2021
	Balance 1 July 2020 ²	Granted as Remuneration ³	Acquired	Other	
James Douglas	1,674,876	28,226	125,000	-	1,828,102
Bruce Griffiths ⁴	204,799	-	-	-	N/A
Lucia Cade	52,877	14,807	12,073	-	79,757
Dale McKee	86,624	14,910	23,183	-	124,717
Mark Bernhard	58,462	28,329	19,816	-	106,607
Peter Lewinsky	22,616	21,246	5,165	-	49,027

Table 22: NED Rights

Non-Executive Directors participated in the NED Salary Sacrifice Plan as detailed in Table 7.

	Number of NED Rights ⁵								
	Balance 1 July 2020	Granted as Remuneration	Vested and Exercised	Lapsed	Balance 30 June 2021	Grant Date	Exercise Price	Face Value ⁶	Fair Value ⁷
James Douglas	-	28,226	28,226	-	-	12-Nov-20	nil	\$2.012	2.65
Lucia Cade	-	14,807	14,807	-	-	12-Nov-20	nil	\$2.012	2.65
Dale McKee	-	14,910	14,910	-	-	12-Nov-20	nil	\$2.012	2.65
Mark Bernhard	-	28,329	28,329	-	-	12-Nov-20	nil	\$2.012	2.65
Peter Lewinsky	-	21,246	21,246	-	-	12-Nov-20	nil	\$2.012	2.65

- Carbon Revolution shares in which the Director has a beneficial interest, including via related parties and spousal shareholders.
- Represents Carbon Revolution shares from listing with following escrow arrangements: Mr Douglas has 1,088,908 shares held in his own name and through related parties that are subject to mandatory escrow until 29 November 2021; Ms Cade has 13,647 shares subject to mandatory escrow until 29 November 2021; Mr McKee has 20,471 shares subject to mandatory escrow until 29 November 2021.
- These shares are the NED Rights that were exercised under the NED Fee Sacrifice Plan. The NED Rights were granted as part of the 2021 remuneration package as approved at the 2020 Annual General Meeting, under Listing Rule 10.14. The restriction period ends for Mr Douglas and Ms Cade on 26 February 2024 and on 26 February 2022 for Mr McKee and Mr Bernhard consistent with their elections under the FY21 NED Fee Sacrifice Plan.
- Ceased as a Director on 6 November 2020.
- The maximum number of NED Rights allocated was calculated by taking the Fee Sacrifice nominated by each NED and dividing this amount by the VWAP of a Share over the 20 trading days following the release of the Company's FY20 full-year financial results (on 25 August 2020), being \$2.012. The minimum value of the award is nil and the maximum value will be determined by the share price on exercising.
- The face value of each NED Right was determined using a 20-day VWAP of a Share over the 20 trading days following the release of the Company's FY20 full-year financial results (on 25 August 2020), being \$2.012.
- The fair value is provided by a third-party valuation at the time of grant.

3.4.16 Rights Issued During or Since FY21

In compliance with section 300(1)(e) and (f) of the Corporations Act: a total of 1,850,644 rights were issued and 393,323 rights were exercised during FY21. Since the end of FY21 up to the date of this report, no new rights were issued or exercised.

3.4.17 Other Transactions with KMP

There were no other transactions, including loans between Carbon Revolution and KMP (including their related parties), during FY21.

OTHER DISCLOSURES

3.5 OTHER DISCLOSURES

Principal activities

The principal activity of the Group during the financial year was the manufacture and sale of carbon fibre wheels and research and development projects related to carbon fibre wheel technology. There have been no significant changes in the nature of these activities during the year.

Significant changes in the state of affairs

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

- the COVID-19 global pandemic
- completion of a \$95m equity raise that resulted in a \$89.9m cash inflow net of transaction costs

Events arising since the end of the reporting period

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

Likely future developments

The Company expects another wheel program to be announced during FY22 as a part of an OEM vehicle launch and to further progress all other wheel development programs. Carbon Revolution expects to progress the Mega-line phase 1 project in readiness for new programs from CY2023 and will continue to work on production efficiencies. There remains ongoing uncertainty in the global economy and in automotive supply chains as a result of the ongoing impacts of COVID-19, however the Company expects the second half of FY22 to have significantly higher sales than the first half due to the introduction of a new program in the second half, the gradual ramp of the two new Ferrari programs throughout the year and the seasonality impact in the first half of an existing program.

Carbon Revolution enjoys a range of strategic growth opportunities. In addition to the scaling up of its Geelong manufacturing facility to materially increase production capacity, the Company aims to leverage its technology into adjacent industries, such as the aerospace and transportation sectors, and will continue to invest in this during FY22.

Environmental regulation

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

- The Environmental Protection Act
- The Dangerous Goods Act

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

Dividends paid, recommended and declared

The Group has not declared or paid any dividends in respect of the 30 June 2021 financial year.

Proceedings on behalf of the Group

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

Non-audit services and auditor independence

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

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

The external auditor provided only services in relation to the audit and review of the financial report. Details of amounts paid or payables during the year are outlined in note 6.6 to the financial statements.

Deloitte, has provided an independence declaration in accordance with section 307C of the Corporations Act, which is set out in section 3.6 and forms part of this Report.

Indemnification and insurance of Directors, Officers and Auditors

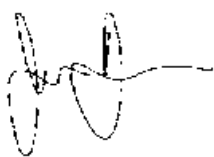
During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company and all executive officers of the Company and of any related body corporate against a liability incurred as such a Director or executive officer to the extent permitted by the Corporations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

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

Rounding of amounts

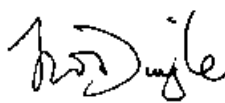
The Company has applied the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' reports) Instrument 2016/191 to this report and amounts in the Financial Statements have been rounded to the nearest thousand dollars, unless stated otherwise.

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



James Douglas
Chair

Geelong, 23 August 2021



Jake Dingle
CEO and Managing Director

Geelong, 23 August 2021

AUDITOR'S INDEPENDENCE DECLARATION

3.6 AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
477 Collins Street
Melbourne VIC 3000
Australia

Tel: +61 3 9671 7000
www.deloitte.com.au

23 August 2021

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

Dear Board Members,

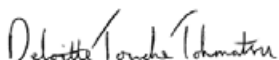
Auditor's Independence Declaration to Carbon Revolution Limited

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 2021, I declare to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Stephen Roche
Partner
Chartered Accountants

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

CORPORATE GOVERNANCE STATEMENT

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

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

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

Carbon Revolution's governance framework is consistent with the 4th edition of the ASX Corporate Governance Principles and Recommendations ('ASX Recommendations'), unless otherwise indicated in the Carbon Revolution 2021 Corporate Governance Statement. Carbon Revolution Corporate Governance Statement is released to the ASX simultaneously as the 2021 Annual Report and available at <https://investors.carbonrev.com/Investor-Centre/?page=corporate-governance>.

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

The Corporate Governance Statement was approved by the Board and is current as of 23 August 2021.



For persons

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
Sale of wheels		32,205	36,853
Engineering services		2,732	1,492
Sale of tooling		-	600
Revenue	2.1	34,937	38,945
Cost of goods sold		(49,232)	(50,519)
Gross margin		(14,295)	(11,574)
Other income	2.2	10,506	6,766
Operational expenses		(3,366)	(1,567)
Research and development		(6,506)	(4,813)
Administrative expenses		(15,750)	(9,432)
Marketing expenses		(938)	(2,056)
Capital raising transaction costs		-	(1,448)
Finance costs	2.4	(1,644)	(2,678)
Loss from anti-dilutive shares issued on IPO		-	(35,801)
Loss on conversion of financial instruments on IPO		-	(51,443)
Loss before income tax expense		(31,993)	(114,046)
Income tax expense	5	-	-
		(31,993)	(114,046)

Other comprehensive income

Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		150	7
Other comprehensive income		150	7
Total comprehensive loss for the year, net of tax		(31,843)	(114,039)

Earnings per share

Basic	2.5	(\$0.20)	(\$1.14)
Diluted	2.5	(\$0.20)	(\$1.14)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Note	30 June 2021 \$'000	30 June 2020 \$'000
Current assets			
Cash and cash equivalents	4.1	87,257	33,861
Receivables	3.1	12,152	7,880
Inventories	3.2	18,179	27,826
Other current assets		1,054	811
Total current assets		118,642	70,378
Non-current assets			
Property, plant and equipment	3.3	47,319	44,036
Right-of-use assets	3.4	7,983	9,290
Intangible assets	3.5	25,339	17,947
Total non-current assets		80,641	71,273
Total assets		199,283	141,651
Current liabilities			
Payables	3.6	12,117	16,962
Borrowings	4.2	9,858	18,674
Lease liability	3.4	542	979
Deferred income	3.7	1,060	798
Provisions	3.8	3,655	2,853
Total current liabilities		27,232	40,266
Non-current liabilities			
Borrowings	4.2	6,529	-
Lease liability	3.4	7,813	8,540
Deferred income	3.7	4,782	3,416
Provisions	3.8	611	519
Total non-current liabilities		19,735	12,475
Total liabilities		46,967	52,741
Net assets		152,316	88,910
Equity			
Contributed equity	4.4	381,890	291,226
Reserves	4.6	5,659	924
Accumulated losses		(235,233)	(203,240)
Total equity		152,316	88,910

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2021

	Note	Contributed equity \$'000	Share buyback reserve \$'000	Share based payment reserve \$'000	Accumulated losses \$'000	Foreign currency translation reserve \$'000	Total equity \$'000
Balance as at 1 July 2019		75,897	(311)	-	(88,829)	(166)	(13,409)
Change in accounting policy		-	-	-	(365)	-	(365)
Restated total equity at 1 July 2019		75,897	(311)	-	(89,194)	(166)	(13,774)
Net loss after tax for the full year		-	-	-	(114,046)	-	(114,046)
Other comprehensive loss for the full year		-	-	-	-	7	7
Total comprehensive loss for the full year		-	-	-	(114,046)	7	(114,039)

Transactions with owners in their capacity as owners:

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

Balance as at 30 June 2020		291,226	(311)	1,394	(203,240)	(159)	88,910
Net loss after tax for the full year		-	-	-	(31,993)	-	(31,993)
Other comprehensive profit/(loss) for the full year		-	-	-	-	150	150
Total comprehensive loss for the full year		-	-	-	(31,993)	150	(31,843)

Transactions with owners in their capacity as owners:

Issue of share capital	4.4	95,047	-	-	-	-	95,047
Share-based payments	4.4	1,138	-	4,585	-	-	5,723
Share issue costs	4.4	(5,521)	-	-	-	-	(5,521)
Total transactions with owners in their capacity as owners		90,664	-	4,585	-	-	95,249
Balance as at 30 June 2021		381,890	(311)	5,979	(235,233)	(9)	152,316

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
Cash flow from operating activities			
Receipts from customers		30,236	37,094
Receipt of grants and research and development incentives		11,888	7,627
Payments to suppliers and employees		(49,896)	(73,752)
Interest received		69	578
Finance costs		(1,615)	(2,522)
Net cash used in operating activities	4.1.1	(9,318)	(30,975)
Cash flow from investing activities			
Payments for property, plant and equipment	3.3	(12,571)	(14,633)
Payments for intangible assets	3.5	(11,278)	(12,289)
Net cash used in investing activities		(23,849)	(26,922)
Cash flow from financing activities			
Proceeds from third party borrowings	4.2	13,000	881
Repayment of third-party borrowings		(2,316)	(746)
Repayment of related party borrowings	4.2	(13,000)	(5,000)
Proceeds from share issues	4.4	95,046	57,730
Capital raising transaction costs	4.4	(5,119)	(6,518)
Repayment of lease liability		(1,040)	(629)
Net cash provided by financing activities		86,571	45,718
Net increase / (decrease) in cash held		53,404	(12,179)
Cash at beginning of financial year		33,861	45,843
Effects of exchange rate changes on cash and cash equivalents		(8)	197
Cash at end of financial year		87,257	33,861

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

NOTES TO THE FINANCIAL STATEMENTS

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1 BASIS OF PREPARATION

1.1 Corporate information

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

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

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

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

Building NR
75 Pigdons Road
Waurin Ponds VIC 3216

1.2 Basis of preparation

The Group financial statements are general purpose financial statements which:

- Have been prepared in accordance with the Corporations Act 2001, Australian accounting standards, and other authoritative pronouncements of the Australian Accounting Standards Board;
- Have adopted all accounting policies in accordance with Australian accounting standards, and where a standard permits a choice in accounting policy, the policy adopted by the Group has been disclosed in these financial statements;
- Do not early adopt any accounting standards or interpretations that have been issued or amended but are not yet effective;
- Comply with International financial reporting standards (‘IFRS’) as issued by the International Accounting Standards Board (‘IASB’);
- Have been prepared for a for profit entity under the historical cost convention, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets.;
- Are presented in Australian dollars, which is the Group’s functional and presentation currency;
- Have been rounded to the nearest thousand dollars, unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Director’s Reports) Instrument 2016/191.

1.3 Going concern

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

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

Whilst the Group incurred an operating loss after tax of \$32.0m (2020: loss \$114.0m) and generated negative cashflows from operating activities of \$9.3m (2020: \$30.9m), as at 30 June 2021 it is in a strong net current asset position and has cash balances of \$87.3m (2020: \$33.9m).

After a successful capital raise in Q4 2021 the Company has sufficient cash to invest in Phase 1 of the Mega-line and Tooling for new programs that are expected to start in FY22.

On the basis of the year end cash balance and detailed cash flow forecasts, the Group believes sufficient, appropriate funding is available to it and therefore has prepared the financial statements on a going concern basis.

1.4 Basis of consolidation

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

Controlled entities

The consolidated financial statements comprise the financial statements of the parent and of its subsidiaries as at reporting date. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Any changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions.

Foreign currency translation

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

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

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

1.5 Significant accounting judgements, estimates and assumptions

In preparing these consolidated financial statements, Management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty are outlined in detail within the specific note to which they relate.

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

Note 3.2 Inventories

Note 3.4 Leases

Note 3.5 Intangible assets

Note 3.8 Provisions

Note 5.1 Income tax

1.6 Goods and Services Tax (GST)

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

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

2 OPERATING PERFORMANCE

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers, regardless of when the payment is received. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing discretion, and is also exposed to inventory and credit risks.

2.1 Revenue

Disaggregation of revenue

	2021 \$'000	2020 \$'000
External revenue by product line		
Sale of wheels	32,205	36,853
Engineering services	2,732	1,492
Sale of tooling	-	600
Total revenue	34,937	38,945
External revenue by timing of revenue		
Goods transferred at a point in time	32,205	37,453
Services transferred at a point in time	1,422	-
Services transferred over time	1,310	1,492
Total revenue	34,937	38,945

2.2 Other income

	2021 \$'000	2020 \$'000
Government grants	3,504	6,048
JobKeeper	6,835	-
Interest income	84	520
Foreign exchange gain	-	107
Other income	83	91
Total other income	10,506	6,766

2.2.1 Information about revenue and other income

Sale of goods

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

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

Rendering of services

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

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

Interest income

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

Government grants

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

JobKeeper

The Federal Government's JobKeeper scheme effectively provided a wage subsidy to the Group, which was materially impacted by COVID-19. The JobKeeper scheme ended on 28 March 2021. The Group was acting as principal and the JobKeeper payments represent a government grant, which is recognised under AASB 120 Accounting for Government Grants and Disclosure of Government Assistance. This grant is recognised as a receivable when there is reasonable assurance that the entity will comply with the conditions attached to the grant and the grant will be received. The grant is recognised in profit or loss in the period in which the entity recognises the related costs as expenses. The grant is disclosed in other income in the profit and loss and within the cashflow in government grants.

Other income

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

2.3 Segments

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

Included in revenues, are revenues of approximately \$32.6m (2020: \$33.0m) which arose from sales to the Group's two major international customers, representing more than 90% of the Group's revenue. No other single customers contributed 10 per cent or more to the Group's revenue in either 2020 or 2021.

Revenue and non-current assets by geography comprise:

	2021 \$'000	2020 \$'000
Revenue		
International	34,937	38,945
Domestic	-	-
	34,937	38,945
Non-current assets		
International	-	-
Domestic	80,641	71,273
	80,641	71,273

2.4 Expenses

	2021 \$'000	2020 \$'000
Finance costs		
Interest on Ronal AG loan	668	1,699
Interest on insurance premium facility	-	12
Facility costs	435	450
Interest on third party loans	400	-
Interest on lease liabilities	50	517
Interest other	91	-
	1,644	2,678
Salaries and employee benefit expense		
Wages and salaries	26,034	26,624
Post-employment benefits	2,259	2,058
Share-based payments expense	5,723	932
	34,016	29,614
Depreciation and amortisation		
Property, plant and equipment	6,391	4,559
Right of use assets	687	724
Capitalised development costs	3,801	2,149
Patents and trademarks	85	79
	10,964	7,511

2.4.1 Information about expenses

Finance costs

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

Share based payments

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

Depreciation

Property, plant and equipment, including leasehold improvements, are depreciated over their estimated useful lives, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the lesser of the assets estimated useful life and the expected term of the lease.

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

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

Class of fixed asset	Depreciation period	Depreciation method
Leasehold improvements	20 years	Straight line
Manufacturing plant and equipment	2 to 10 years	Diminishing value
Tooling	3 to 10 years	Diminishing value
Other equipment	3 to 5 years	Diminishing value

Intangible assets

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

2.5 Earnings per share

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

	2021 \$'000	2020 \$'000
Earnings		
Earnings for the purposes of basic earnings per share being loss for the year	(31,993)	(114,046)
Effect of dilutive potential ordinary shares	-	-
Earnings for the purposes of diluted earnings per share	(31,993)	(114,046)

	2021 No. '000	2020 No. '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	155,501	100,296
Effect of dilutive potential ordinary shares	-	-
Total number of shares	155,501	100,296

3 OPERATING ASSETS AND LIABILITIES

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

3.1 Receivables

	2021 \$'000	2020 \$'000
Trade receivables		
Not past due	5,618	5,943
Past due 1 – 30 days	2,662	639
Past due 31 – 90 days	3,174	120
Past due 90 days and over	2	41
	11,456	6,743
Allowance for impairment losses	-	-
Trade receivables net of allowance for impairment losses	11,456	6,743
Other receivables	277	78
GST recoverable	419	1,059
Trade and other receivables	12,152	7,880

3.1.1 Information about receivables

Trade receivables are measured at the transaction price in accordance with AASB 15. Receivables are measured at amortised cost using the effective interest method, less any impairment.

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

See note 4.3.2 regarding credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables. There is currently an immaterial provision for expected credit losses which has been deemed by Management in consideration of historically collected debt as well as expected collectability of customers as at 30 June 2021.

The large increase in past due trade receivables at 30 June relates to a change in payment terms with one customer that was not finalised at 30 June. The payment terms change is necessary as that customer has IT system constraints that results in them being unable to pay on existing terms when wheels are sent via sea freight.

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

3.2 Inventories

	2021 \$'000	2020 \$'000
Current		
Raw materials	6,095	8,209
Work in progress	14,314	15,282
Finished goods	3,929	2,653
Finished goods in transit	-	3,816
Consumables and spare parts	2,820	2,753
Provision for trial wheels, obsolescence and scrap	(8,979)	(4,887)
Inventories at the lower of cost and net realisable value	18,179	27,826

3.2.1 Information about inventories and significant estimates

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

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

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

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

Amounts recognised in profit or loss

Inventories recognised as an expense during the year ended 30 June 2021 amounted to \$46.9m (2020 \$50.5m). These were included in cost of goods sold.

During the year \$5.6m (2020: \$4.2m) of obsolescence and scrap were recognised as an expense and included in 'cost of goods sold' in the consolidated statement of profit or loss and other comprehensive income.

Critical accounting estimates and judgement

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

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

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

3.3 Property, plant and equipment

	Capital works in progress \$'000	Leasehold improvements \$'000	Manufacturing equipment \$'000	Tooling \$'000	Other equipment \$'000	Total \$'000
Gross cost	10,521	5,549	28,555	11,017	1,810	57,452
Less accumulated depreciation	-	(810)	(6,789)	(5,137)	(680)	(13,416)
At 30 June 2020	10,521	4,739	21,766	5,880	1,130	44,036
Gross cost	7,138	5,540	40,370	10,312	2,136	65,496
Less accumulated depreciation	-	(1,074)	(10,654)	(5,575)	(874)	(18,177)
At 30 June 2021	7,138	4,466	29,716	4,737	1,262	47,319

Movement in carrying amounts

Balance at 1 July 2019	8,979	4,457	12,780	4,444	876	31,536
Additions	17,516	-	378	-	-	17,894
Transfer into/(out of) capital WIP	(15,183)	539	11,178	2,973	493	-
Write-offs from WIP	(787)	-	-	-	-	(787)
Depreciation expense	-	(257)	(2,535)	(1,537)	(230)	(4,559)
Disposals/write-offs	(4)	-	(35)	-	(9)	(48)
Balance at 30 June 2020	10,521	4,739	21,766	5,880	1,130	44,036
Additions	10,059	-	-	-	-	10,059
Transfer into/(out of) capital WIP	(13,442)	63	11,920	945	514	-
Depreciation expense	-	(281)	(3,866)	(1,861)	(382)	(6,390)
Disposals/write-offs	-	(55)	(104)	(227)	-	(386)
Balance at 30 June 2021	7,138	4,466	29,716	4,737	1,262	47,319

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

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

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

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

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

The Group has capital commitments of \$2.7m for manufacturing equipment as at 30 June 2021 (2020: \$3.7m).

3.4 Leases

Amounts recognised in the balance sheet

	2021 \$'000	2020 \$'000
Right-of-use assets		
Equipment	-	820
Property	7,983	8,470
	7,983	9,290
Lease liabilities		
Current	542	979
Non-current	7,813	8,540
	8,355	9,519

Amounts recognised in the statement of profit or loss

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

	2021 \$'000	2020 \$'000
Depreciation charge of right of use assets		
Equipment	49	91
Property	639	633
	688	724
Interest expense	50	517
Expense relating to short-term leases (included in costs of goods sold and operational expenses)	258	87

3.4.1 Information about leases and significant estimates

The Group has one lease for the head office. The lease agreement does not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Right of use assets

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any initial direct costs and restoration costs reduced by any lease incentives received. The Group applies AASB 136 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the critical accounting estimate.

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

Payments associated with short-term leases of equipment are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease liabilities

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

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

Expense relating to low value leases (included in administrative expenses) for year ending 30 June 2021 was \$0.2m (2020: \$0.1m).

Critical accounting estimates and judgement

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

3.5 Intangible assets

	Development costs \$'000	Patents and trademarks \$'000	Total \$'000
Gross cost	19,738	1,150	20,888
Less accumulated amortisation	(2,617)	(324)	(2,941)
At 30 June 2020	17,121	826	17,947
Gross cost	30,898	1,268	32,166
Less accumulation amortisation	(6,418)	(409)	(6,827)
At 30 June 2021	24,480	859	25,339

Movement in carrying amounts

Balance at 1 July 2019	7,264	622	7,886
Additions	12,006	283	12,289
Amortisation	(2,149)	(79)	(2,228)
Balance at 30 June 2020	17,121	826	17,947
Additions	11,160	118	11,278
Amortisation	(3,801)	(85)	(3,886)
Balance at 30 June 2021	24,480	859	25,339

3.5.1 Information about intangible assets and significant estimates

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

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

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

Capitalised development costs

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

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

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

Patents and trademarks

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

Software-as-a-Service (SaaS) arrangements

During the year, the Group incurred costs in relation to upfront configuration and customisation for the new enterprise resource management system, a SaaS arrangement. In light of the IFRIC agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements the expenses relating to the arrangement were expensed according to the accounting policy provided below.

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Critical accounting estimates and judgements

Internal development expenditure is capitalised if it meets the recognition criteria of AASB 138 Intangible Assets. This is considered a key judgment. The Group regularly assesses the probable future cashflows supporting the capitalisation of development costs in accordance with the standard. Where programs or other uncertainties are such that the criteria are not met, the expenditure is recognised in profit and loss.

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

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

3.6 Payables

	2021 \$'000	2020 \$'000
Current		
<i>Unsecured liabilities</i>		
Trade payables	6,743	12,928
Accruals	3,793	2,780
Interest accrued	1,067	978
Other payables	514	276
	12,117	16,962

3.6.1 Information about payables

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

During the year the Group entered a new supply chain finance agreement with a logistic company. Under the arrangement the logistic company agrees to pay amounts to the participating supplier in respect of invoices owed by the Group and receives settlement from the Group at a later date. The principal purpose of this arrangement is to facilitate efficient ordering, importation, warehousing, invoice management and payment processing.

The Group has not derecognized the original liabilities to which the arrangement applies because neither a legal release was obtained nor was the original liability substantially modified on entering into the arrangement. The arrangement is only for a limited number of suppliers and specific materials. From the Group's perspective, the arrangement does not significantly extend payment terms beyond the normal terms agreed with other suppliers that are not participating. The Group therefore discloses the amounts factored by suppliers within trade payables because the nature and function of the financial liability remain the same as those of other trade payables. The interest rate applied in the agreement is 6% with interest payable for the period from the supplier due date to the delivery to the Group date. As of 30 June 2021 a total amount of \$2.4m relates to the agreement in trade payables. All payables under the agreement are classified as current as at 30 June 2021.

The payments to the logistic company are included within operating cash flows because they continue to be part of the normal operating cycle of the Group and their principal nature remains operating. – i.e. payments for the purchase of goods and services.

All other payables are non-interest bearing and are settled based on the specific creditor's terms.

Payables includes interest payable on borrowings.

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

3.7 Deferred income

Deferred income consists of government grants. Government grants have been received to assist with the purchase of certain items of plant and equipment as well as the cost of employment of new employees. The conditions attached to these grants will be fulfilled progressively over the period of the grant. For revenue recognition policy, refer to note 2.2.1.

	2021 \$'000	2020 \$'000
Balance as at 1 July	4,214	3,768
Received during the year	3,839	2,939
Released to the statement of profit or loss	(2,211)	(2,493)
Balance as at 30 June	5,842	4,214
Current	1,060	798
Non-current	4,782	3,416
	5,842	4,214

3.8 Provisions

	Employee benefits \$'000	Make good provision \$'000	Warranty claims \$'000	Onerous contracts \$'000	Total \$'000
Current	2,124	-	729	-	2,853
Non-current	316	203	-	-	519
At 30 June 2020	2,440	203	729	-	3,372
Current	2,496	-	1,159	-	3,655
Non-current	393	218	-	-	611
At 30 June 2021	2,889	218	1,159	-	4,266

	Make good provision \$'000	Warranty claims \$'000	Onerous contracts \$'000	Total \$'000
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Movement in carrying amounts

Balance at 1 July 2019	-	1,093	102	1,195
Provided for/ (released) during the year	203	(364)	(102)	(263)
Balance at 30 June 2020	203	729	-	932
Provided for/(released) during the year	15	430	-	445
Balance at 30 June 2021	218	1,159	-	1,377

3.8.1 Information about individual provisions and significant estimates

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

Make good provision

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

Warranty claims

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

Critical accounting estimates and judgements

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

Onerous contracts

Provisions for onerous contracts are recognised when the tooling in progress is expected to be sold to the customer below cost. The onerous provision estimate on tooling exposure is reassessed annually. This amount was released in 2020 and no provision is required at 30 June 2021.

Employee provisions

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

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

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

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

4 CAPITAL STRUCTURE AND FINANCING

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

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

4.1 Cash and cash equivalents

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

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

4.1.1 Notes to the consolidated statement of cash flow

For information on cash flows relating to financing activity see note 4.3

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

	2021 \$'000	2020 \$'000
Loss after income tax	(31,993)	(114,046)
Non cash items from ordinary activities		
Depreciation and amortisation	10,964	7,511
Share based payment expenses	5,723	1,680
Reduction of borrowings from achievement of grant milestones	(2,000)	(2,000)
Movement in inventory provision	(4,563)	(1,939)
Write off of property, plant and equipment	1,230	(273)
Non cash losses related to IPO		
Anti-dilutive shares issued on IPO	-	35,801
Loss on conversion of financial instruments on IPO	-	51,443
Capital raising transaction costs	-	1,448
Changes in assets and liabilities		
<i>(Increase)/decrease in assets:</i>		
Receivables	(4,272)	1,151
Inventories	14,210	(16,598)
Other assets	(242)	(490)
<i>Increase/(decrease) in liabilities:</i>		
Payables	2,895	4,220
Deferred income	3,627	446
Provisions	893	671
Cash used in operating activities	(9,318)	(30,975)

4.2 Borrowings and other financial liabilities

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

	Interest rate %	Maturity	2021 \$'000	2020 \$'000
Current borrowings				
<i>Secured</i>				
Working capital facility	7.2%	August – October 2021	5,525	-
			5,525	-
<i>Unsecured</i>				
Insurance premium funding	5%	August 2020	-	174
State of Victoria loan	10.9%	June 2021	-	5,500
Export Finance Australia loan	6.0%	December 2023	4,333	-
Ronal AG loan facility	10.0%	June 2021	-	13,000
			9,858	18,674
Non-current borrowings				
<i>Unsecured</i>				
Export Finance Australia loan	6.0%	December 2023	6,529	-
			6,529	-

Financial liabilities measured subsequently at amortised cost

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Working capital facility

During the year the Group entered a new working capital facility of \$7.5m that provides the opportunity to factor receivables. As the credit risk remains with the Group, it continues to recognize the full carrying amount of the receivables and has recognized the cash received in short term borrowings.

State of Victoria (SoV) Loan

Carbon Revolution was party to a loan arrangement with the State of Victoria under which the Group was provided with an early grant advance. During the second quarter of the financial year the scheduled \$2.0m repayment was offset with a \$2.0m milestone payment. The final \$3.5m was repaid in May 2021.

Ronal AG loan facility

The Group had issued a convertible loan facility to Ronal AG, a related party, which was fully repaid in December 2020. The interest on the facility was subject to 10% withholding tax.

Export Finance Australia (EFA) loan

In the financial year Carbon Revolution entered a loan arrangement with EFA for \$13.0m which was used to repay \$13.0m Ronal loan facility in December 2020. As of June 2021 two quarterly repayments of \$1.1m occurred reducing the used loan amount to \$10.8m.

Finance costs

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

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

Refer to note 2.4 for more information

4.3 Financial risk management

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

4.3.1 Market risk

a) Foreign currency risk

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

34% of the Group's revenues and 9% of costs are denominated in currencies other than AUD. The Group does not currently have a sufficiently material exposure to any foreign currency for movements in the exchange rate to be considered a material financial risk. The primary currencies the Group has exposure to are US Dollars and Euros.

The Group's exposure to foreign currency risk in relation to non-derivative financial instruments at 30 June 2021 was as follows, based upon notional amounts.

	EUR \$'000	USD \$'000
2021		
Trade receivables	1,489	42
Trade payables	(189)	(266)
Balance sheet exposure	1,300	(224)

2020		
Trade receivables	1,855	32
Trade payables	(1,492)	(307)
Balance sheet exposure	363	(275)

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

	2021 \$'000	2020 \$'000
Net foreign exchange gain/(loss) included in other income/ administration expenses	(234)	107

Sensitivity

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

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

	2021 \$'000	2020 \$'000
+/- 5% exchange rate		
Impact on profit after tax	54	4
Impact on equity	(54)	(4)

b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates is not significant because of the fixed interest rate nature of the loans and working capital facility. 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	
2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000

Financial assets

Cash	86,865	33,469	-	-	86,865	33,469
Short term deposits	-	-	392	392	392	392
Total financial assets	86,865	33,469	392	392	87,257	33,861

Financial liabilities

Insurance premium funding	-	-	-	174	-	174
Working capital facility	-	-	5,525	-	5,525	-
SoV loan	-	-	-	5,500	-	5,500
EFA loan	-	-	10,862	-	10,862	-
Ronal AG loan facility	-	-	-	13,000	-	13,000
Total financial liabilities	-	-	16,387	18,674	16,387	18,674

Fixed interest rate on short term deposits is 0.15% (2020: 0.2%). Fixed interest rates on financial liabilities are disclosed in note 4.2.

The Group holds \$392,000 (2020: \$392,000) on deposit as collateral for lease and banking facility obligations. The operating cash account received an average interest rate of 0.14% (2020: 0.14%) per annum.

Sensitivity

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

The Group's financial liabilities have fixed interest rates and therefore do not expose the Group to an interest rate risk.

2021 \$'000	2020 \$'000
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+/- 100 basis points

Impact on profit after tax	869	334
Impact on equity	(869)	(334)

c) Price risk

The Group is not exposed to any significant price risk.

4.3.2 Credit risk

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

Cash and cash equivalents

The Group held cash and cash equivalents of \$87.3m at 30 June 2021 (30 June 2020: \$33.9m). The credit risk associated with cash and cash equivalents is considered as minimal as the cash and cash equivalents are held with reputable financial institutions in Australia. Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. The Group holds \$0.4m (2020: \$0.4m) on deposit as collateral for lease and banking facility obligations.

Receivables

The Group held receivables of \$12.2m at 30 June 2021 (30 June 2020: \$7.9m). The assessment of customer credit risk is straightforward as a result of the concentrated nature of receivables with only a few customers and a simplified approach has been taken. Depending on the customer, the Group's credit terms vary between 30 and 100 days. During the year the Group entered a new working capital facility as outlined in note 4.2. An impairment analysis is performed at each reporting date to account for the lifetime expected credit losses for all receivables. Outstanding customer receivables are regularly monitored and shipments to customers, to the extent that the Group retains ownership of the goods, are covered by insurance.

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

4.3.3 Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of operating cash flows and committed available credit facilities. The Group actively reviews its funding position to ensure the available facilities are adequate to meet its current and anticipated needs. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash and borrowing facilities are maintained, this includes an assessment of the impact of COVID-19 on the business.

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
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2021

Working capital facility	-	3,860	1,665	-	-	5,525
EFA loan	-	-	4,333	7,028	-	11,361
Lease Liabilities	-	89	453	2,387	5,478	8,407
	-	3,949	6,451	9,415	5,478	25,293

2020

Insurance premium funding	-	174	-	-	-	174
SoV Loan	-	-	5,500	-	-	5,500
Ronal AG loan	-	-	13,000	-	-	13,000
Lease Liabilities	-	156	813	2,508	6,042	9,519
	-	330	19,313	2,508	6,042	28,193

4.3.4 Fair value risk

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

As at 30 June 2021 there were no assets or liabilities impacted by fair value risk (30 June 2020: Nil).

4.4 Contributed equity

	30 June 2021 # Ordinary shares	30 June 2020 # Ordinary shares	30 June 2021 \$'000	30 June 2020 \$'000
Ordinary shares – fully paid	205,421,449	145,632,909	381,890	291,226
Ordinary shares – restricted	377,642	253,460	-	-
Total share capital	205,799,091	145,886,369	381,890	291,226

Movements in ordinary share capital

2020	Date	# Shares	Issue Price	\$'000
Balance	1 July 2019	50,892,598		75,897
Issue of Shares shares (IPO)	29 November 2019	11,538,462	\$2.60	30,000
Issue of shares in respect of SBP plan	29 November 2019	95,605	\$2.60	248
Issue of shares to Convertible Note Holders	29 November 2019	48,243,689	\$2.60	125,434
Anti-dilutive shares issued on IPO	29 November 2019	16,356,588	*	35,801
Issue of employee shares	13 March 2020	19,230	\$2.51	48
Institutional placement	23 March 2020	16,666,667	\$1.50	25,000
Issue of shares in respect of SBP plan	22 April 2020	1,820,070	\$1.50	2,730
Share issue transaction costs				(3,932)
Balance of fully paid shares	30 June 2020	145,632,909		291,226

2021	Date	# Shares	Issue Price	\$'000
Balance	1 July 2020	145,632,909		291,226
Institutional entitlement offer	26 April 2021	45,932,235	\$1.60	73,492
Retail entitlement offer	21 May 2021	13,471,671	\$1.60	21,555
Transfer from share-based payment reserve		230,337		718
Shares issued under Employee Share Plan		154,297		420
Share issue transaction costs				(5,521)
Balance of fully paid shares	30 June 2021	205,421,449		381,890

The Group issued additional equity through an institutional and retail entitlement offer during the year. 59.4 million shares were issued with equity proceeds of \$95.0m received (before transaction costs). Transaction costs of \$5.5m were incurred.

4.4.1 Information about contributed equity

Ordinary shares

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

During the financial year ended 30 June 2021, the Company did not pay a dividend (30 June 2020: \$nil).

4.5 Share-based payment plan arrangements

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

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

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

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

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

Tax-exempt employee share ownership plan

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

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

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

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

	2021	2020
Grant date	Dec 2020	Nov 2019
Number of employees granted shares	287	110
Value of shares granted per employee (on FTE and length of service pro-rata basis)	\$300-\$1,000	\$1,000
Total number of shares	87,378	38,269
Fair value at grant date	\$2.74	\$2.60

Short term incentive plan

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

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

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

63,958 rights were granted on the 2 October 2020 valued at \$128,684, 33,548 rights were granted on 12 November 2020 valued at \$49,499 and 24,809 rights were issued on 5 February 2021 valued at \$49,916 (2020: 97,172 rights valued at \$369,254). These rights will generally vest 12 months from the date of granting. No rights were forfeited, exercised or expired during the year.

276,648 rights were granted on 2 October 2020 valued at \$766,315, 33,549 rights were granted on 12 November 2020 valued at \$88,905 and 36,103 rights were granted on 5 February 2021 valued at \$100,727 (2020: Nil). These rights generally vest automatically on granting. Of these rights 135,598 were exercised during the year and no shares were forfeited or expired.

Employee stock ownership plan

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

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

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

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

The terms of the options are:

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

The options were valued at \$3,241,000. This cost is being amortised over the three-year vesting period. 96,780 options were forfeited during the year.

FY21 LTI Award

The FY21 LTI Award was to deliver a one-off equity award to a number of senior executives. These performance rights entitle the participant to acquire shares at nil cost on vesting, subject to the meeting of the vesting conditions.

778,050 performance rights were granted on 12 November 2020. The performance period commenced on 21 September 2020 and ends on 20 September 2023

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

NED fee sacrifice

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

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

Salary restructure scheme

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

In total 89 employees took up the offer to restructure their salary and a total number of 498,789 rights were granted under the scheme. Base rights vested on a pro-rata basis over the period in equal monthly instalments on the last day of each month (such that base rights were fully vested by 30 June 2021), except for international participants. The matched rights vested in full on 30 June 2021.

Vested rights may be exercised by the employee with the exercise period commencing when the rights vest and ending on the expiry date. The expiry date is the 10-year anniversary of the grant date.

4.6 Reserves

	2021 \$'000	2020 \$'000
Share-based payments	5,979	1,394
Share buyback	(311)	(311)
Foreign currency translation	(9)	(159)
	5,659	924

4.6.1 Information about reserves

Share-based payments reserve

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

Share buy-back reserve

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

Foreign currency translation reserve

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

5 TAXES

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

Income tax

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

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

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

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

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

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

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

5.1 Critical accounting estimates and judgements

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. Management have determined that it is not appropriate to recognise a deferred tax asset until consistent levels of profitability can be demonstrated. No deferred tax assets have been recognised as at 30 June 2021 (2020: Nil).

Refer to note 5.4 for details regarding unrecognised tax amounts.

5.2 Income tax expense

The major components of income tax expense are:

	2021 \$'000	2020 \$'000
Consolidated statement of profit or loss		
Current income tax charge/benefit	-	-
Adjustment for current tax relating to prior periods	-	-
Deferred income tax relating to the origination and reversal of temporary differences	-	-
	-	-

The prima facie tax benefit on loss before tax differs from the income tax expense as follows:

Accounting loss before tax	(31,993)	(114,046)
Benefit at the Australian statutory income tax rate of 30% (2020: 30%)	9,598	34,213
Tax impact of:		
Non-deductible expenses	(3,762)	(28,831)
Non-assessable income	-	837
Impact of different tax rates in foreign jurisdictions	(50)	29
Current year taxable loss not recognised	(5,786)	(6,248)
Income tax benefit	-	-

5.3 Deferred taxes

	2021 \$'000	2020 \$'000
Deferred tax assets		
Provisions and accruals	5,102	2,173
Capital raising	2,776	1,683
Tax losses	38,546	25,351
Other	147	37
	46,571	29,244
Deferred tax liabilities		
Receivables	(24)	(1)
Other	-	(31)
	(24)	(32)
Net deferred tax asset	46,547	29,212
Deferred tax asset not recognised	46,547	29,212

5.4 Unrecognised deferred tax assets

At 30 June 2021 the Group has unrecognised deferred tax assets of \$46.5m including an amount of \$38.5m arising from the Group's tax losses not booked (2020: unrecognised deferred tax asset of \$29.2m).

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

6 OTHER NOTES

6.1 Information about subsidiaries

The table below lists the controlled entities of the Group.

Name	Principal activities	Country of incorporation	% equity interest	
			2021	2020
Carbon Revolution Operations Pty Ltd	Carbon fibre wheels	Australia	100	100
Carbon Revolution Technology Pty Ltd	Carbon fibre wheels	Australia	100	100
Carbon Revolution (USA) LLC	Carbon fibre wheels	United States	100	100
Carbon Revolution (UK) Limited	Carbon fibre wheels	United Kingdom	100	100

6.2 Deed of cross guarantee

Carbon Revolution Limited and Carbon Revolution Operations Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the other. By entering into the deed dated 25 June 2019, Carbon Revolution Operations Pty Ltd has been relieved from the requirement to prepare a financial report and directors' report under ASIC Corporations (wholly owned companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission. Refer below for the statement of profit and loss and other comprehensive income for the parties to the deed of cross guarantee for the year ended 30 June 2021:

	2021 \$'000	2020 \$'000
Sale of wheels	32,189	36,868
Engineering services	2,732	1,492
Sale of tooling	-	600
Revenue	34,921	38,960
Cost of goods sold	(49,217)	(50,475)
Gross margin	(14,296)	(11,515)
Other income	10,431	6,729
Operational expenses	(3,362)	(1,567)
Research and development	(6,506)	(4,778)
Administrative expenses	(15,690)	(9,352)
Marketing expenses	(873)	(2,047)
Capital raising transaction costs	-	(1,448)
Borrowing costs	(1,644)	(2,678)
Loss on conversion of financial instruments on IPO	-	(51,443)
Anti-dilutive shares issued on IPO	-	(35,801)
Impairment of inter-company balances	-	(11)
Loss before income tax expense	(31,940)	(113,911)
Income tax expense	-	-
Loss for the year after income tax	(31,940)	(113,911)
Other comprehensive income	-	-
Total comprehensive loss for the year, net of tax	(31,940)	(113,911)

Refer below for the statement of financial position for the parties to the deed of cross guarantee as at 30 June 2021:

	2021 \$'000	2020 \$'000
Current assets		
Cash and cash equivalents	87,241	33,855
Receivables	12,152	7,952
Inventories	18,066	27,697
Other current assets	1,053	811
Total current assets	118,512	70,315
Non-current assets		
Property, plant and equipment	47,319	44,036
Right of use asset	7,983	9,290
Intangible assets	25,339	17,947
Total non-current assets	80,641	71,273
Total assets	199,153	141,588
Current liabilities		
Payables	12,232	17,037
Borrowings	9,858	18,674
Lease liability	542	979
Deferred income	1,060	798
Provisions	3,654	2,853
Total current liabilities	27,346	40,341
Non-current liabilities		
Borrowings	6,529	-
Lease liability	7,813	8,540
Deferred income	4,782	3,416
Provisions	611	519
Total non-current liabilities	19,735	12,475
Total liabilities	47,081	52,816
Net liabilities	152,072	88,772
Equity		
Contributed equity	381,890	291,226
Reserves	5,659	1,083
Accumulated losses	(235,477)	(203,537)
Total equity/(deficiency in equity)	152,072	88,772

6.3 Directors and key management personnel

	2021	2020
Compensation by category		
Short-term employment benefits	1,037,034	1,695,146
Post-employment benefits	82,020	118,867
Other long-term benefits	-	46,005
Share-based payments	1,251,222	399,027
	2,370,276	2,259,045

6.4 Transactions with related parties

Share purchases

Five Directors participated in the Retail offer in May 2021 acquiring 185,237 shares at a value of \$296,379. Five Directors participated in the share purchase plan during the year acquiring 107,518 shares at a value of \$284,923.

6.5 Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2021 the parent entity of the Group was Carbon Revolution Limited. The parent entity applied the same accounting policies as the Group.

	2021 \$'000	2020 \$'000
Results of parent entity		
Loss for the year	31,691	114,887
Other comprehensive loss	-	-
Total comprehensive loss for the year	31,691	114,887
Financial position for the parent entity at year end		
Current assets	81,323	36,532
Total assets	168,846	110,210
Current liabilities	(12,528)	(21,783)
Total liabilities	(16,681)	(21,783)
Total equity of the parent company comprising of		
Contributed equity	381,890	291,226
Reserves	5,668	1,083
Accumulated losses	(235,572)	(203,882)
Total equity/(deficiency in equity)	151,986	88,427

6.6 Auditor's remuneration

The auditor of the Group for the year ended 30 June 2021 is Deloitte (30 June 2020: Deloitte).

	2021 \$'000	2020 \$'000
Audit Services		
Audit and review of the financial report	132,500	140,000
Other Services		
Capital raising – IPO investigating accountant and vendor due diligence	-	572,064
Member firm of Deloitte		
Employee payroll service – Germany	-	2,755
	132,500	714,819

6.7 Unrecognised items

6.7.1 Guarantees

The Group has entered into property lease rental guarantees with a face value of \$271,763 (30 June 2020: \$271,763).

6.7.2 Capital commitments

The Group has capital commitments for manufacturing equipment as at 30 June 2021 totaling \$2.7m (30 June 2020: \$3.7m).

6.7.3 Contingent liabilities

The Group has no contingent liabilities as at 30 June 2021 (30 June 2020: nil).

6.8 Changes in accounting policies

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

6.9 Accounting standards issued but not yet effective at 30 June 2021

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

Standard and Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<i>AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB10 & AASB128], AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections</i>	1 January 2022	30 June 2023
<i>AASB 2020-1 Amendments to Australian Accounting Standards – Classifications of Liabilities as Current or Non-Current</i>		
<i>AASB 2020-6 Amendments to Australian Accounting Standards— Classification of Liabilities as Current or Non-current – Deferral of Effective Date</i>	1 January 2022	30 June 2023
<i>AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments</i>	1 January 2022	30 June 2023
<i>AASB 2020-4 Amendments to Australian Accounting Standards – COVID-19 Rent Concessions</i>	1 June 2020	30 June 2023
<i>AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates</i>	1 January 2023	30 June 2024

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

6.10 Subsequent events

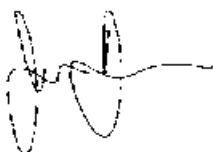
COVID-19 continues to be an ongoing global situation which has flow on impacts to the Group's business and the local COVID-19 situation which involves the potential for lockdown at any time, as demonstrated via lockdowns in Victoria in July and August 2021. Management continues to keep up to date with all recommendations made by the Department of Health and Human Services and WorkSafe Victoria best practices to ensure the safety and well-being of our workforce. The ongoing global shortage in the supply of semi-conductors continues to impact global car production. Management continues to monitor this global situation and the potential impacts to the Group's business.

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 2021 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 2021 and of its performance for the year ended on that date; and
 - ii. complying with Accounting Standards and the Corporations Regulations 2001;
- b. the Financial Statements and Notes also comply with International Financial Reporting Standards; and
- c. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.



James Douglas

Chair

Geelong, 23 August 2021

AUDITORS' REPORT



Deloitte Touche Tohmatsu
ABN 74 490 121 060
477 Collins Street
Melbourne VIC 3000

Tel: +61 3 9671 7000
www.deloitte.com.au

Independent Auditor's Report to the Members of Carbon Revolution Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Carbon Revolution Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of 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:

- Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Capitalisation of development costs</p> <p>As at 30 June 2021 the Group's capitalised development costs total \$24.5m as disclosed in Note 3.5.</p> <p>Capitalisation of development costs requires management judgement to determine whether:</p> <ul style="list-style-type: none"> • Expenditure relates to development activity and not research activity, • Expected future economic benefits attributable to the intangible assets will flow to the Group, • The amortisation of intangible assets should commence when revenue has been generated, and • The useful lives assigned are appropriate. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the process undertaken by management to determine whether expenditure should be capitalised as intangible assets; • Assessing the appropriateness of management's accounting policy; • Assessing capitalised development costs at balance date to determine whether they have been correctly capitalised and it is probable that expected future economic benefits attributable to those assets will flow to the Group; and • Reviewing the listing of capitalised intangible assets at balance date to verify that: <ul style="list-style-type: none"> ○ Amortisation has commenced on intangible assets that are available for use; and ○ The useful lives assigned to each intangible asset are appropriate. <p>We have also assessed the appropriateness of the disclosures in Note 3.5.1 to the financial statements.</p>
<p>Valuation of inventory</p> <p>As at 30 June 2021 the Group inventory balances total \$27.1m, as disclosed in Note 3.2. Provided against this, is a total inventory provision of \$9.0m.</p> <p>The Group holds significant stock of finished goods and work in progress inventory at its manufacturing facility, the measurement of which is an important input into gross margin.</p> <p>Valuation of inventory at the lower of its cost and net realisable value requires management judgement to determine whether:</p> <ul style="list-style-type: none"> • Finished goods are in a saleable condition in order to meet quality specifications; • There are any indicators of technical or functional obsolescence; • Customers are willing to purchase finished goods that had previously been identified to be defective, and at what price. <p>Selling costs that may impact the net realisable value of finished goods on hand are appropriate.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of management's processes and judgements applied in estimating the net realisable value of inventory; • Evaluating management's judgements in estimating net realisable value by comparing the carrying value of a sample of finished goods to contractual sales prices; • Validating the quantity and cost of inventory subject to provision. <p>We have also assessed the appropriateness of the disclosures in Note 3.2.1 to the financial statements.</p>



Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021 but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

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

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

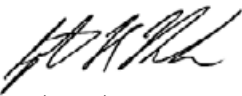
We have audited the Remuneration Report included in section 3.4 of the Directors' Report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Carbon Revolution Limited, for the year ended 30 June 2021, complies with section 300A of the Corporations Act 2001.

Responsibilities

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


DELOITTE TOUCHE TOHMATSU



Stephen Roche
Partner
Chartered Accountants
Melbourne, 23 August 2021



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SECTION 7 SHAREHOLDER INFORMATION

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

The Shareholder Information set out below was applicable as at 30 July 2021 unless indicated otherwise.

7.1 DISTRIBUTION AND NUMBER OF SHAREHOLDERS OF EQUITY SECURITIES

The distribution and number of holders of equity securities on issue in the Company as at 30 July 2021, and the number of holders holding less than a marketable parcel of the Company's ordinary shares, based on the closing market price as at the 30 July 2021, is as follows:

Range	Securities	%	No. of holders
100,001 and Over	158,560,647	77.05	122
10,001 to 100,000	32,888,506	15.98	1,120
5,001 to 10,000	6,714,751	3.26	868
1,001 to 5,000	6,476,564	3.15	2,470
1 to 1,000	1,158,623	0.56	2,147
Total	205,799,091	100.00	6,727

The above table includes 195,615,052 quoted ordinary shares, and 10,184,039 unquoted ordinary shares which are subject to mandatory escrow following listing of the Company on the ASX.

Unmarketable parcels: 1,143 Holders of less than a marketable parcel of \$500 are included in the above total. Details of those holdings are:

	Securities	%	No. of holders
Unmarketable Parcels	364,739	0.18	1,143

7.1.1 Distribution of holders of rights and options

Range	Securities	%	No. of holders
100,001 and Over	6,051,067	92.72	10
10,001 to 100,000	164,196	2.52	5
5,001 to 10,000	134,566	2.06	19
1,001 to 5,000	175,272	2.69	71
1 to 1,000	893	0.01	1
Total	6,525,994	100.00	106

7.2 TWENTY LARGEST QUOTED EQUITY SECURITY HOLDERS

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

Rank	Name	30 Jul 2021	%IC
1	Citicorp Nominees Pty Limited	22,173,308	11.34
2	BNP Paribas Nominees Pty Ltd	19,997,576	10.22
3	UBS Nominees Pty Ltd	13,575,092	6.94
4	HSBC Custody Nominees (Australia) Limited	12,327,564	6.30
5	J P Morgan Nominees Australia Pty Limited	10,563,310	5.40
6	Ronal AG	9,985,354	5.10
7	BNP Paribas Noms Pty Ltd	9,104,526	4.65
8	Deakin University	7,848,881	4.01
9	Crown in Right of the State of Victoria	5,421,742	2.77
10	National Nominees Limited	4,297,500	2.20
11	Argo Investments Limited	4,133,107	2.11
12	Mr Donald Brett Gass	2,169,473	1.11
13	Matthew Dingle	2,085,378	1.07
14	Mr Ashley James Denmead	1,373,000	0.70
15	First Samuel Ltd Acn 086243567	1,257,264	0.64
16	BNP Paribas Nominees Pty Ltd Six Sis Ltd	935,041	0.48
17	Invia Custodian Pty Limited	678,818	0.35
18	Acorn Capital Private Opportunities Fund Lp	648,725	0.33
19	BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd	615,214	0.31
20	HSBC Custody Nominees (Australia) Limited – A/C 2	570,867	0.29
Total		129,761,740	66.34
Balance of register		65,853,312	33.66
Grand total		195,615,052	100.00

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

7.3 SUBSTANTIAL HOLDERS

As at 30 July 2021, the names of the substantial holders of the Company and the number of equity securities in which those substantial holders and their associates have a relevant interest, as disclosed in substantial holding notices given to the Company, are as follows:

Name	Number Held	Date notice provided
UniSuper Limited as trustee for UniSuper Management Pty Ltd	16,855,178	11/05/2021
ECP Asset Management Pty Ltd	14,387,813	06/05/2021
Ronal AG	14,227,941	29/11/2019
Quest Asset Partners Pty Ltd	10,627,385	25/08/2020
Tiga Trading Pty Ltd	10,193,099	07/05/2021
Commonwealth Bank of Australia	7,591,335	23/03/2020

7.4. VOTING RIGHTS

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

7.4.1 Ordinary shares

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

7.4.2 Rights and options

Rights and options do not carry any voting rights.

7.5 UNQUOTED EQUITY SECURITIES

ASX Code	Class	Number of securities
CBRAA	Ordinary shares, escrow expiring 29 November 21	10,184,039
CBRAF	Performance Rights	1,529,098
CBRAE	Options expiring 23 December 2024	4,996,896

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

ASX Code	Class	Number of securities	% of class
CBRAA	Ronal AG	4,242,587	41.66
CBRAA	Point Grey Investments Pty Ltd	4,019,443	39.47

7.6 ON-MARKET BUY-BACK

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

7.7 ON-MARKET PURCHASE OF SECURITIES

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

7.8 CORPORATE DIRECTORY

Directors	James Douglas Jake Dingle Lucia Cade Dale McKee Mark Bernhard
Company Secretary	David Nock
Annual General Meeting	29 October 2021
Director nomination deadline	26 August 2021
Registered office	Carbon Revolution Building NR, Geelong Technology Precinct 75 Pigdons Road, Waurin Ponds Victoria, 3216 Australia Phone: +61 3 5271 3500
Share register	Share Registry Link Market Services Level 12, 680 George Street Sydney, NSW, 2000 Australia Phone: +61 1300 554 474
Auditor	Deloitte Touche Tohmatsu 477 Collins Street Melbourne, Victoria, 3000
Stock exchange listing	Carbon Revolution Limited shares are listed on the Australian Securities Exchange (ASX code: CBR)
Business objectives	In accordance with the Listing Rule ASX 4.10.19, the Directors confirm that the Group has used cash and cash equivalents that are held at the time of listing in a way consistent with its stated business objectives
Website	www.carbonrev.com



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