

Carbonxt Group Limited
Appendix 4E
Preliminary final report



1. Company details

Name of entity:	Carbonxt Group Limited
ABN:	59 097 247 464
Reporting period:	For the year ended 30 June 2023
Previous period:	For the year ended 30 June 2022

2. Results for announcement to the market

			\$
Revenues from ordinary activities	down	15.8% to	15,461,953
Underlying Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA')	down	4398.5% to	(2,193,360)
Loss from ordinary activities after tax attributable to the owners of Carbonxt Group Limited	up	34.2% to	(5,983,771)
Loss for the year attributable to the owners of Carbonxt Group Limited	up	34.2% to	(5,983,771)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the Group after providing for income tax amounted to \$5,983,771 (30 June 2022: \$4,458,505).

Revenues decreased 15.8% compared to prior year primarily due to planned downtime during the year at both activated carbon plants to install updated equipment which resulted in lower production and sales than typical for the period as well as the Group's largest customer deferring sales into FY24 due to an unplanned outage at its operations.

The directors consider Underlying Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') and Underlying EBIT to reflect the core earnings of the Group. Underlying EBITDA and underlying EBIT are financial measures which are not prescribed by Australian Accounting Standards ('AAS') and represent the profit or loss under AAS adjusted for non-cash and significant items. The following table summarises key reconciling items between statutory loss after income tax and underlying EBITDA for the current and previous year period:

	Consolidated	
	2023	2022
	\$	\$
Revenue	15,461,953	18,363,422
Gross margin	4,579,280	6,216,902
Other income	552,619	481,930
Shipping and distribution costs	(1,667,001)	(1,659,576)
Operating expenses	(5,658,258)	(5,088,014)
Underlying EBITDA	(2,193,360)	(48,758)
Depreciation and amortisation	(2,444,432)	(2,138,540)
Underlying Earnings before interest and tax ('EBIT')	(4,637,792)	(2,187,298)
Net Interest expense	(1,168,149)	(1,090,763)
Share-based payment expense	(177,830)	(841,141)
Other non-cash items	-	(339,303)
Loss before income tax expense	<u>(5,983,771)</u>	<u>(4,458,505)</u>

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For further commentary refer to 'Review of operations' section within the Directors' report of the Annual Report and the attached market announcement.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>1.96</u>	<u>0.66</u>

The net tangible assets calculation does not include rights-of-use assets of \$5,101,083 (30 June 2022: \$4,507,400) but include the lease liabilities of \$2,132,186 (30 June 2022: \$2,284,992).

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$	Previous period \$
NewCarbon Processing, LLC	33.33%	-	-	-
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			-	-
Income tax on operating activities			-	-

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9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unmodified opinion has been issued with a paragraph addressing material uncertainty related to going concern.

11. Attachments

Details of attachments (if any):

The Annual Report of Carbonxt Group Limited for the year ended 30 June 2023 is attached.

12. Signed

As authorised by the Board of Directors



Signed _____

Date: 31 August 2023

Warren Murphy
Managing Director
Sydney

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Carbonxt Group Limited

ABN 59 097 247 464

Annual Report - 30 June 2023

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Carbonxt Group Limited
Contents
30 June 2023



Corporate directory	2
Chairman's letter	4
Directors' report	6
Auditor's independence declaration	18
Statement of profit or loss and other comprehensive income	19
Statement of financial position	20
Statement of changes in equity	21
Statement of cash flows	22
Notes to the financial statements	23
Directors' declaration	56
Independent auditor's report to the members of Carbonxt Group Limited	57
Shareholder information	63

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Carbonxt Group Limited
Corporate directory
30 June 2023



Directors	Matthew Driscoll - Chairman Warren Murphy - Managing Director David Mazyck - Director of Technology and Chief Executive Officer Carbonxt Inc. Imtiaz Kathawalla – Non-Executive Director
Company secretary	Laura Newell
Registered office	c/- Boardroom Pty Limited Level 8, 210 George Street Sydney NSW 2000 Australia Tel: +61 2 9290 8600
Principal place of business	Suite 111 3951 NW 48th Terrace Gainesville FL 32606 United States of America
Share register	Boardroom Pty Limited Level 8, 210 George Street Sydney NSW 2000 Australia Tel: +61 2 9290 9600
Auditor	Ernst & Young 200 George Street Sydney NSW 2000 Australia
Solicitors	Thomson Geer Level 14 16 Martin Place Sydney NSW 2000 Australia
Stock exchange listing	Carbonxt Group Limited shares are listed on the Australian Securities Exchange (ASX code: CG1)
Website	www.cglimited.com.au
Business objectives	The development and sale of specialised Activated Carbon ('AC') products, including Powdered Activated Carbon ('PAC') and AC pellets for the removal of pollutants and toxins in industrial processes.

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Corporate Governance Statement

The directors and management are committed to conducting the business of Carbonxt Group Limited in an ethical manner and in accordance with the highest standards of corporate governance. Carbonxt Group Limited has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) ('Recommendations') to the extent appropriate to the size and nature of its operations.

The Group's Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed, and ASX Appendix 4G are released to the ASX on the same day the Annual Report is released. The Corporate Governance Statement and Corporate Governance Compliance Manual can be found on the Company's website at www.cglimited.com.au

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Dear Shareholder,

I am pleased to present our Annual Report for the financial year ending 30 June 2023 ("FY23").

The highlight of the year without a doubt was the signing of final documentation for the construction of an activated carbon facility in Kentucky. Carbonxt is collaborating with our partner, Kentucky Carbon Processing, LLC ("KCP") to convert an existing waste-to-energy power station at Inez, Kentucky into a state-of-the-art activated carbon ("AC") manufacturing facility. The conversion of the existing infrastructure greatly reduces the risk of construction completion and shortens the time to build the facility considerably. It is expected that the facility will be fully operational in the first half of calendar 2024.

The facility will be owned by a newly incorporated entity, NewCarbon Processing, LLC ("NewCarbon"). KCP sold its Inez Power assets into NewCarbon and is taking the construction risk to deliver the activated carbon facility. Carbonxt funded USD 5.0m to acquire an initial 33% equity interest, with the ability to pay a further USD 5.0m over the next year to acquire up to 50% of NewCarbon.

Financing was achieved via an equity raising in 1H23 and by an increased senior debt facility of \$15.0m provided by Pure Asset Management. We thank our shareholders and Pure Asset Management for their support.

The Board recently met with our new partners in Kentucky and visited the site. Construction is on schedule, and it was exciting to see the extensive efforts of our team and that of KCP coming to fruition. The KCP team is highly skilled and committed, and we look forward to seeing the first 10,000 tons per annum of capacity being operational in 2024.

The new plant in Kentucky enables Carbonxt's entry into the liquid phase of the AC market. Entry into the utility water market will substantially increase the Company's addressable market by some USD \$300 million today, growing to some USD \$900 million should the forecast from the American Water Works Association ("AWWA") prove correct. AWWA is the leading industry body for water utilities in the USA. AWWA's forecast is predicated on a substantial increase in demand as a result of the introduction of legislation to capture PFAS chemicals.

PFAS, or per and polyfluoroalkyl substances, are a large chemical family of over 4,700 chemicals. These chemicals have been used traditionally to make products including cooking utensils and fire fighting foams resistant to heat, grease, and water. PFAS are often referred to as "forever chemicals," as they barely degrade. Long-term exposure to these chemicals has been linked to significant health risks. The US Environmental Protection Agency ("EPA") determined that PFAS chemicals are likely carcinogens, which means that they are likely to cause cancer and that there is no level of these contaminants that is without a risk of adverse health effects.

In early 2023, the EPA announced new legal limits for six PFAs of four parts per trillion. These limits would be the first-ever national drinking water standard for the United States of America. The EPA announced also that it will be deploying USD \$9 billion specifically to invest in communities with drinking water impacted by PFAS and other such contaminants.

The EPA has now closed the public comment period for the proposed rule, and it is on record as promulgating a final rule by the end of this calendar year.

Our financial results in FY23 were impacted by outages at both Arden Hills and Black Birch to affect operational efficiencies, and by deferral of pellet purchases by our largest customer in the last quarter of the year. These events resulted in an approximate 16% reduction in revenue and a larger decrease in gross margins. However, we expect to see a significant improvement in gross margins in FY24 as the above actions to improve operational costs come to fruition, as well as new higher pricing coming into effect across our product ranges. We are already seeing these improvements in results to date in the first quarter of FY24.

Carbonxt Group Limited
Chairman's letter
30 June 2023



FY24 should represent the beginning of a major change in scale of our business. This growth is the culmination of many years of effort, building upon our position as the only U.S. supplier of activated carbon pellets.

Yours sincerely

A handwritten signature in black ink, appearing to read "M Driscoll".

Matthew Driscoll
Chairman

31 August 2023

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The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Carbonxt Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2023.

Directors

The following persons were directors of Carbonxt Group Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Matthew Driscoll - Chairman
Warren Murphy
David Mazyck
Imtiaz Kathawalla (appointed 19 July 2023)
Fadi Diab (appointed 8 September 2022 and resigned 29 November 2022)

Principal activities

During the financial year the principal continuing activities of the Group consisted of the development and sale of specialised Activated Carbon ('AC') products, including Powdered Activated Carbon ('PAC') and AC pellets for the removal of pollutants and toxins in industrial processes.

These products are used in industrial air purification, waste water treatment and other liquid and gas phase markets, primarily for the capture of mercury and sulphur in order to reduce harmful emissions into the atmosphere, as required by global regulations.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the Group after providing for income tax amounted to \$5,983,771 (30 June 2022: \$4,458,505).

Revenue for the year was \$15,461,953 (before other income) and \$16,014,572 (after other income) representing a decrease of 15.80% and 15.02% respectively on the prior year's revenue of \$18,363,422 (before other income) and \$18,845,352 (after other income). In US dollars, revenue was US\$10,412,064 (before other income) and US\$10,784,213 (after other income) representing a decrease of 28.01% and 26.83% respectively on the prior year's revenue of US\$13,328,172 (before other income) and US\$13,677,956 (after other income).

Revenues decreased 15.8% compared to FY22 primarily due to planned downtime in 1H23 at both activated carbon plants to install updated equipment which resulted in lower production and sales than typical for the period as well as the Group's largest customer deferring sales into FY24 due to an unplanned outage at its operations.

The directors consider Underlying Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') and Underlying EBIT to reflect the core earnings of the Group. Underlying EBITDA and underlying EBIT are financial measures which are not prescribed by Australian Accounting Standards ('AAS') and represent the profit or loss under AAS adjusted for non-cash and significant items. The following table summarises key reconciling items between statutory loss after income tax and underlying EBITDA for the current and previous year period:

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Underlying EBITDA	(2,193,360)	(48,758)
Depreciation and amortisation	(2,444,432)	(2,138,540)
Underlying Earnings before interest and tax ('EBIT')	(4,637,792)	(2,187,298)
Net Interest expense	(1,168,149)	(1,090,763)
Share-based payment expense	(177,830)	(841,141)
Other non-cash items	-	(339,303)
Loss before income tax expense	<u>(5,983,771)</u>	<u>(4,458,505)</u>

As a result of the loss incurred for the year ended 30 June 2023 and the liquidity at the reporting date, there is a material uncertainty on whether the Group can continue as a going concern. The directors consider that the Group will continue as a going concern, as explained in note 2 to the financial statements.

Liquidity

During the financial year ended 30 June 2023, the Group incurred a net loss after tax of \$5,983,771 (30 June 2022: \$4,458,505) and a cash outflow from operating activities of \$2,420,250 (30 June 2022: \$1,879,348). As at 30 June 2023, the Group had net assets of \$16,276,611 (30 June 2022: \$11,123,632) and cash and cash equivalents of \$4,305,838 (30 June 2022: \$1,090,450).

As a result of the loss incurred for the year ended 30 June 2023 and the liquidity at the reporting date, there is a material uncertainty on whether the Group can continue as a going concern. The directors consider that the Group will continue as a going concern, as explained in note 2 to the financial statements.

Business risks

The following is a summary of material business risks that could adversely affect the Group's financial performance and growth potential in future years and how the Group proposes to mitigate such risks:

Competition risk

The Group operates in a dynamic AC market. There is a possibility that existing or new competitors may increase competitive pressure through technological advancements, volume increases or pricing and other strategies. Any significant advancements in technology for producing AC have the potential to change the competitive environment in which the Group operates.

Ability to retain existing clients or attract new clients

The Group's business depends on its ability to retain contracts with existing customers and to attract further business from existing customers or attract new customers. The loss of existing customers or the inability to attract new customers would have an adverse impact on the financial position of the Group.

Regulatory risk

The Group is heavily reliant on US environmental policies and regulation. Any change to or reversal of current legislation would have a significant negative effect on the Group's business model and financial performance.

Intellectual property risk

The Group relies on its intellectual property (including technology, know how, trademarks, designs and patents) and there can be no assurance that competitors or other parties will not imitate or develop technology and know-how that challenges or competes with the Group or supersedes the Group's intellectual property. In addition, any unauthorised use or disclosure of the Group's intellectual property may also have an adverse effect on the Group's financial performance.

Reliance on key personnel

The Group employs, or engages as consultants, a number of key management and scientific personnel. The inability of the Group to retain and attract highly qualified and experienced personnel could have a material adverse impact on the Group's business and financial performance.

Safety and industrial accidents

The manufacture and supply of the Group's products are subject to safety related risks, which are managed carefully by the Group. Despite the relevant safety guards there is no guarantee a serious accident will not occur in the future, which may negatively affect the financial performance of the Group.

Brand establishment and maintenance

Establishing and maintaining its brand in the industry is critical to growing the Group's customer base and product acceptance. Prior to entering into supply agreements, the Group is required to undertake vigorous testing of its Activated Carbon solutions. Any unsuccessful tests for potential customers could adversely affect the Group's brand, and its business and operating results could be adversely affected. The Group must also maintain and support its existing customer relationships to maintain its brand and attract further customers.

Offshore operations

While the Group's corporate management is in Australia, its operations are based in the United States. The global nature of the pollution control business, may result in the Group's activities extending to other countries in the future. Geographic diversity adds risk to the ability of the Group to manage its operations and employees, and introduces additional risks relating to the general economic, regulatory, legal, social and political environment in the jurisdictions in which it intends to operate, which may in turn adversely affect the Group's business and financial condition.

Exchange rate risk

The Group is exposed to movements in exchange rates as the vast majority of the Group's revenue and expenses are denominated in USD. Adverse movements in the AUD/USD exchange rate may have an adverse effect on the reported financial performance and/or financial position of the Group.

Product liability and uninsured risks

The Group is exposed to potential product liability risks, which are inherent in the research and development, manufacturing, marketing and use of its products or products that are developed in the future. Whilst the Group has liability insurance to help manage such risks, the Group may not be able to maintain insurance for product or service liability on reasonable terms in the future and/or the Group's insurance may not be sufficient to cover large claims, or the insurer could disclaim coverage on any such claims.

Significant changes in the state of affairs

Capital raising

On 2 August 2022, the Group announced the successful completion of institutional entitlement offer raising approximately \$400,888 (before issue costs) from 2,863,483 ordinary shares at an issue price of \$0.14. The shares were issued on 10 August 2022.

On 26 September 2022, the Group announced the commitment to raise \$7,000,000 through the placement of 70,000,000 fully paid shares at \$0.10 per share before issue costs in two tranches. The tranche 1 shares of 13,114,383 were issued at \$0.10 per share raising a total of \$1,311,719 before issue costs. The issuance of tranche 2 was approved by shareholders in the AGM, a total of 51,742,810 shares were issued at \$0.10 per share raising a total of \$5,174,281 before issue costs. Total amount raised on the share placement is \$6,486,000 before issue costs.

On 30 September 2022, the Company announced the share purchase plan to provide existing shareholders as at 23 September 2022, the opportunity to subscribe for new shares at the offer price of \$0.10 per share. A total of 16,103,000 shares were issued under the share purchase plan and raised a total of \$1,610,300. The shares were issued on 3 November 2022.

Borrowing facility

The Group entered into an agreement with Pure Asset Management Pty Ltd ("Pure") on 23 May 2023 to amend and restate the Facility Agreement dated 24 May 2019 with effect on and from 31 May 2023. Under the amended and restated loan facility agreement, the existing loan of \$5,500,000 was refinanced and an additional \$9,500,000 was drawdown from the facility which will be used to fund the NewCarbon Processing LLC, acquisitions and product development, and for working capital purposes. Refer to note 18 for further details on the loan.

Investment in NewCarbon

On 29 July 2022, the Company signed a term sheet for the 50% ownership in a new state-of-the-art activated carbon plant located in Eastern Kentucky, USA in an agreement with Kentucky Carbon Processing LLC ('KCP'), an established and leading industry player that is well capitalised and well connected in the US market.

On 31 May 2023, the Company announced the execution of a legally binding agreement ('NewCarbon'), established with KCP to establish a new state-of-the-art activated carbon plant in Kentucky, USA. Refer to note 13 for further details.

The Group has agreed to contribute US\$10,000,000 in cash to NewCarbon while KCP agreed to contribute US\$10,000,000 in value of assets, infrastructure and equipment. The contributions will result to a 50-50 ownership between the two parties.

As at 30 June 2023, the Group made an initial contribution of US\$5,000,000 which resulted to a 33.33% ownership in NewCarbon and shall make the remaining contributions of US\$5,000,000 in stages subject to completion of milestones to increase its ownership to 50%.

There were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group will continue to expand its industrial AC pellet business in vapour control, liquid solvent recovery and other specific industrial uses of pellets. In line with this expansion, the Group shall make the remaining contributions of US\$5,000,000 in stages, subject to completion of milestones, to increase its ownership in NewCarbon to 50%. The expansion will significantly increase production capacity and gross margins and will allow existing capacity to be repositioned to produce more specialised technologies,

The Group will continue to provide its PAC solution for emission capture and wastewater treatment and will leverage the competitive advantage of its non-brominated PAC, that does not cause corrosion and damage to plant equipment. Furthermore, there is a renewed and continuing emphasis from a majority of US companies on ESG objectives. Carbonxt's PAC products made at its Black Birch plant utilise renewable feedstock and thus would satisfy the needs of those who are seeking focus on renewable feedstocks.

The Group's current and prospective customers continue to emphasise a desire for US-made pellets. Carbonxt is the only activated carbon industrial pellet developer and producer located in the United States, and this is expected to continue to drive both revenue and margin growth.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name: Matthew Driscoll
Title: Non-Executive Chairman
Qualifications: BA, Dip Ed, Grad.Dip.App.Fin. SF Fin, MSA, GAICD
Experience and expertise: Matthew Driscoll is an agile, entrepreneurial thinker, with strong networks and significant experience across several industries, including manufacturing, online technologies, financial services, fintech, property and resources. Matthew has over 35 years' experience in capital markets and the financial services industry, with major financial institutions. Accomplished company Director in roles with listed and private companies, undertaking leadership positions on the Board (as Chairman) and on various committees (including audit and risk committees). Significant experience in international business growth, mergers and acquisitions, equity and debt raisings and building strategic political, financial, and commercial alliances. Passionate about high growth, innovative businesses, committed to ethical, commercial, and consumer-based outcomes. Clear, concise communicator able to grasp and disseminate complex issues effectively. A serial investor and strong supporter of start-ups providing seed and expansion capital with unique skills bringing private companies to the listed environment.

Other current directorships: Chair Tennant Minerals (TMS) a gold copper explorer in the NT, Chair of Smoke Alarms Holdings the market leader in servicing smoke alarms in rental properties in Australia, Chair of Workspace Australia a multi-regional business incubator network in Central Victoria, NED Energy Technologies Limited (EGY) an investment company focused on Australian based manufacturing businesses, NED and Responsible Manager of Advocate Strategic Investments. AFSL: 224560 a Melbourne-based independent investment management firm that provides institutional and sophisticated investor clients with customised alternative investment strategies, Local Councillor-Mount Alexander Shire.

Former directorships (last 3 years): Chair, Powerwrap Limited (PWL) Chair, Killara Resources Limited (KRA)

Interests in shares: 2,083,881 ordinary shares

Interests in options: None

Name: Warren Murphy
Title: Managing Director
Qualifications: B.E. (Electrical and Electronic Engineering) (Hons), B.Com (Accounting and Economics)
Experience and expertise: Warren was previously Co-Head of the Australian Infrastructure & Project Finance Group and Head of Energy at Babcock & Brown based in the Sydney office. Warren led the development of Babcock & Brown's energy sector capability in Australia and New Zealand, including the founding of Australia's largest renewable energy company, Infigen Energy (and its unlisted predecessor, Global Wind Partners).

Other current directorships: None

Former directorships (last 3 years): None

Interests in shares: 1,375,229 ordinary shares

Interests in options: None

Name: Dr David Mazyck
Title: Director of Technology and Chief Executive Officer ('CEO') Carbonxt Inc.
Qualifications: Ph.D. from Penn State University in Environmental Engineering and Ph.D. minor in fuel science.

Experience and expertise: David is a world-leading expert on AC and its applications. He has developed AC products for the major multinational AC manufacturers and has regularly consulted for them on technical issues. David was Chairman of the Activated Carbon Standards Committee for the American Water Works Association ('AWWA') and has developed products for National Aeronautics and Space Administration ('NASA').

Other current directorships: None

Former directorships (last 3 years): None

Interests in shares: 426,062 ordinary shares

Interests in options: none

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Name: Imtiaz Kathawalla (appointed 19 July 2023)
 Title: Director
 Experience and expertise: Dr Kathawalla has an extensive experience in the activated carbon and water purification industries. He was previously a Vice-President at NYSE-listed Cabot Corporation, a global chemical company where he had a 27-year career. He ran Cabot Corporation's global activated carbon business
 Other current directorships: None
 Former directorships (last 3 years): none
 Interests in shares: None

Name: Fadi Diab (appointed 8 September 2022 and resigned 29 November 2022)
 Title: Director
 Qualifications: BBus (HRM), IR from University of Western Sydney and MBM from University of Technology Sydney
 Experience and expertise: Fadi is a seasoned corporate executive with over 10 years experience in large financial institutions. He has worked on a number of large-scale technology transformation programs which have received industry recognition and awards at a national level.
 Other current directorships: None
 Former directorships (last 3 years): None
 Interests in shares: Not applicable as no longer a director
 Interests in options: Not applicable as no longer a director

Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Laura Newell is an experienced Chartered Company Secretary who has worked for a broad range of organisations, both in-house and for corporate secretarial service providers. She has over eight years of experience in company secretarial and governance management of ASX & NSX listed entities, unlisted public entities and FTSE100 entities. She has worked with Boards and executive management of listed and unlisted companies across a range of industry sectors. She is a Company Secretary of a number of ASX listed and unlisted public companies. She holds a degree with Honours in Law and Criminology and a Master's degree in Law and Corporate Governance. She is an Associate of the Governance Institute of Australia (GIA).

Rebecca Prince was Company Secretary and Chief Financial Officer to Carbonxt Group Limited until 21 October 2022 and then served on a part-time contractor basis until 31 May 2023. She was formerly the Chief Financial Officer of AllChem Industries Holding Corporation, from 2009 to 2018. She has also held positions with Ernst & Young, Protiviti and Andersen, based in Australia and China. She holds a Law degree from the University of New South Wales, an MBA from the University of Illinois at Urbana-Champaign and a Graduate Certificate in Applied Finance and Investment from the Financial Services Institute of Australia.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2023, and the number of meetings attended by each director were:

	Full Board	
	Attended	Held
Matthew Driscoll	4	4
Warren Murphy	4	4
David Mazyck	4	4
Fadi Diab	1	1

Held: represents the number of meetings held during the time the director held office.

The Company has not constituted an Audit and Risk Committee nor a Nomination and Remuneration Committee given the size of the Board and the nature and scale of the Group's operations. The Board as a whole fulfils the functions normally delegated to these Committees, in accordance with the relevant Committee Charter.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration ('KMP') arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to KMP

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- transparency; and
- capital management.

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

On 30 November 2017, shareholders at the Annual General Meeting approved the Employee Option Plan ('EOP'). Shareholder approval is not required under the Corporations Act 2001 for the operation of the EOP, however if an offer is made to a director to participate in the EOP, then separate shareholder approval will be required to be obtained.

Non-executive director remuneration

Fees and payments to the non-executive director reflect the demands and responsibilities of his role. Non-executive director fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive director fees and payments are appropriate and in line with the market. The non-executive director is entitled to participate in the EOP.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the 2013 Annual General Meeting, where the shareholders approved a maximum annual aggregate remuneration of \$750,000.

Executive remuneration

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, non-monetary benefits and superannuation, where applicable, are reviewed annually by the Board based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, new customer acquisition, customer satisfaction, leadership contribution and product management.

The long-term incentives ('LTI') include share-based payments. Executives are entitled to participate in the EOP.

Group performance and link to remuneration

Remuneration for certain individuals is directly linked to the performance of the Group. Cash bonuses and incentive payments are at the discretion of the Board. Refer to the section 'Additional information' below for details of the earnings and total shareholders return since listing.

Use of remuneration consultants

During the financial year ended 30 June 2023, the Group did not engage the use of remuneration consultants, to review its existing remuneration policies and provide recommendations on how to improve both the STI and LTI programs.

Voting and comments made at the Company's 2022 Annual General Meeting ('AGM')

At the 2022 Annual General Meeting, 99.27% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2022. The Company did not receive any specific feedback on its remuneration practices at the 2022 Annual General Meeting or during the financial year.

Details of remuneration

Amounts of remuneration

The KMP of the Group consisted of the following directors of Carbonxt Group Limited:

- Matthew Driscoll - Non-Executive Chairman
- Warren Murphy - Managing Director
- David Mazyck - Director of Technology and Chief Executive Officer Carbonxt Inc.
- Fadi Diab - Director (appointed 8 September 2022 and resigned 29 November 2022)

And the following person:

- Rebecca Prince - Chief Financial Officer ('CFO') (resigned 21 October 2022)

Details of the remuneration of KMP of the Group are set out in the following tables.

Changes since the end of the reporting period:

- Imtiaz Kathawalla Non-Executive Director (appointed 19 July 2023).

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Bonus	Non-monetary	Super-annuation**	Long service leave	Equity-settled***	
2023	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Director:</i>							
Matthew Driscroll	120,000	-	-	-	-	-	120,000
Fadi Diab****	11,399	-	-	-	-	-	11,399
<i>Executive Directors:</i>							
Warren Murphy*	219,000	-	-	-	-	-	219,000
David Mazyck*	544,666	-	-	-	-	54,299	598,965
	-	-	-	-	-	-	-
<i>Other KMP:</i>							
Rebecca Prince*****	92,648	-	-	-	-	31,697	124,345
	987,713	-	-	-	-	85,996	1,073,709

* Fees paid to consulting firms related to the relevant KMP.

** Superannuation and equivalent post-employment benefits are not required in the United States, and the Company does not have such benefits currently in place.

*** The amounts represent the fair value of shares issued in FY23 as well as shares to be issued in lieu of directors fees and salary payments for KMP.

**** Represents remuneration from 8 September 2022 to 29 November 2022.

***** Represents remuneration from 1 July to 21 October 2022.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Bonus	Non-monetary	Super-annuation**	Long service leave	Equity-settled***	
2022	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Director:</i>							
Matthew Driscroll	120,000	-	-	-	-	-	120,000
<i>Executive Directors:</i>							
Warren Murphy*	219,000	-	-	-	-	-	219,000
David Mazyck*	501,516	-	-	-	-	52,257	553,773
<i>Other KMP:</i>							
Rebecca Prince	217,999	-	-	-	-	93,473	311,472
	1,058,515	-	-	-	-	145,730	1,204,245

* Fees paid to consulting firms related to the relevant KMP.

** Superannuation and equivalent post-employment benefits are not required in the United States, and the Company does not have such benefits currently in place.

*** The amounts represent the fair value of shares issued in FY22 as well as shares to be issued in lieu of directors fees and salary payments for KMP.

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The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2023	2022	2023	2022	2023	2022
<i>Non-Executive Directors:</i>						
Matthew Driscroll	100%	100%	-	-	-	-
Fadi Diab	-	-	-	-	-	-
<i>Executive Directors:</i>						
Warren Murphy	100%	100%	-	-	-	-
David Mazyck	100%	100%	-	-	-	-
<i>Other KMP:</i>						
Rebecca Prince	100%	100%	-	-	-	-

Service agreements

Remuneration and other terms of employment for KMP are formalised in service agreements. Details of these agreements are as follows:

Name: Warren Murphy
Title: Managing Director and Chief Executive Officer
Agreement commenced: 22 March 2013
Term of agreement: Ongoing - no fixed minimum term
Details: Annual fees of \$219,000 via consultancy agreement.

Name: David Mazyck
Title: Director of Technology and CEO Carbonxt Inc.
Agreement commenced: 10 May 2013
Term of agreement: Ongoing - no fixed minimum term
Details: Annual fees US\$400,000 via contractor agreement.

Name: Rebecca Prince
Title: Chief Financial Officer
Agreement commenced: 17 September 2018
Term of agreement: Terminated on 21 October 2022. Retained on contract to 31 May 2023.
Details: Annual base salary of US\$225,000 with annual bonus up to 50% of annual salary.

All contracts with KMP may be terminated early by either party within the stipulated notice period, subject to any termination payments. KMP have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

Details of shares issued to directors and other KMP as part of compensation during the year ended 30 June 2023 are set out below:

Name	Date	Shares	Issue price	\$
Rebecca Prince*	7 July 2022	43,473	\$0.19	8,177
Rebecca Prince	11 August 2022	51,798	\$0.16	8,386
Rebecca Prince**	19 December 2022	67,057	\$0.12	8,260
Rebecca Prince**	19 December 2022	80,771	\$0.11	8,596
Rebecca Prince**	19 December 2022	62,951	\$0.10	6,455

* shares were granted in financial year 2022 but issued in financial year 2023.

** shares were granted before the resignation date of 21 October 2022 but issued subsequently.

The share-based payments amounts represent the fair value of shares to be issued to directors and other key management personnel in lieu of directors fees and salary payments as part of compensation during the year ended 30 June 2023.

Options

There were no options over ordinary shares issued to directors and other KMP as part of compensation that were outstanding as at 30 June 2023.

Additional information

The earnings of the Group for the five years to 30 June 2023 are summarised below:

	2023 \$	2022 \$	2021 \$	2020 \$	2019 \$
Sales revenue	15,461,953	18,363,422	12,327,092	15,786,160	18,325,205
Net loss after tax	(5,983,771)	(4,458,505)	(5,332,851)	(4,388,789)	(6,671,921)
Net (liabilities)/assets	16,276,611	11,123,632	8,378,608	6,821,945	4,956,333

	2023	2022	2021	2020	2019
Share price at financial year end (\$)	0.07	0.17	0.12	0.19	0.33
Basic loss per share (cents per share)	(2.47)	(2.53)	(3.97)	(4.41)	(7.68)

Additional disclosures relating to KMP

Shareholding

The number of shares in the Company held during the financial year by each director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals*	Balance at the end of the year
<i>Ordinary shares</i>					
Matthew Driscoll	1,583,881	-	500,000	-	2,083,881
Warren Murphy	1,075,229	-	300,000	-	1,375,229
David Mazyck	426,062	-	-	-	426,062
Rebecca Prince	594,297	306,050	-	(900,347)	-
	<u>3,679,469</u>	<u>306,050</u>	<u>800,000</u>	<u>(900,347)</u>	<u>3,885,172</u>

* Represent reduction on shareholding from the time of resignation as key management personnel.

Option holding

The number of options over ordinary shares in the Company held during the financial year by each director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Purchased	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Matthew Driscoll	363,217	-	-	(363,217)	-
Warren Murphy	333,333	-	-	(333,333)	-
	<u>696,550</u>	<u>-</u>	<u>-</u>	<u>(696,550)</u>	<u>-</u>

Other transactions with KMP and their related parties

Warren Murphy and David Mazyck provide consultancy services through their consultancy firms. The amount of fees has been disclosed in the 'Details of remuneration' section above.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Carbonxt Group Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
27 August 2021	27 August 2024	\$0.24	5,000,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of Carbonxt Group Limited issued on the exercise of options during the year ended 30 June 2023 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

There were no non-audit services provided during the financial year by the auditor.

Officers of the Company who are former partners of Ernst & Young

There are no officers of the Company who are former partners of Ernst & Young.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Warren Murphy
Managing Director

31 August 2023
Sydney



**Building a better
working world**

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Sydney NSW 2000 Australia
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Fax: +61 2 9248 5959
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Auditor's Independence Declaration to the Directors of Carbonxt Group Limited

As lead auditor for the audit of the financial report of Carbonxt Group Limited for the financial year ended 30 June 2023, I declare to the best of my knowledge and belief, there have been:

- a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;
- b. No contraventions of any applicable code of professional conduct in relation to the audit; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Carbonxt Group Limited and the entities it controlled during the financial year.

Ernst & Young

Scott Jarret
Partner
31 August 2023

Carbonxt Group Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2023



	Note	Consolidated	
		2023	2022
		\$	\$
Revenue			
Sales revenue	5	15,461,953	18,363,422
Cost of goods sold		(10,882,673)	(12,146,520)
Gross margin		4,579,280	6,216,902
Other income	6	552,619	481,930
Expenses			
Shipping and distribution costs		(1,667,001)	(1,659,576)
Employee benefits expense		(2,798,681)	(2,536,370)
Share-based payment expense	34	(177,830)	(841,141)
Depreciation and amortisation expense	7	(2,444,432)	(2,138,540)
Selling and marketing expenses		(324,651)	(187,263)
General and administrative expenses		(1,371,884)	(1,110,129)
Other expenses	7	(1,163,042)	(1,593,555)
Operating loss		(4,815,622)	(3,367,742)
Interest revenue calculated using the effective interest method		51,265	983
Finance costs	7	(1,219,414)	(1,091,746)
Loss before income tax expense		(5,983,771)	(4,458,505)
Income tax expense	8	-	-
Loss after income tax expense for the year attributable to the owners of Carbonxt Group Limited		(5,983,771)	(4,458,505)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		614,845	1,266,111
Other comprehensive income for the year, net of tax		614,845	1,266,111
Total comprehensive loss for the year attributable to the owners of Carbonxt Group Limited		(5,368,926)	(3,192,394)
		Cents	Cents
Basic loss per share	33	(2.47)	(2.53)
Diluted loss per share	33	(2.47)	(2.53)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Carbonxt Group Limited
Statement of financial position
As at 30 June 2023



	Note	Consolidated 2023 \$	2022 \$
Assets			
Current assets			
Cash and cash equivalents	9	4,305,838	1,090,450
Trade and other receivables	10	1,425,107	2,041,003
Inventories	11	3,305,507	3,122,264
Other	12	206,467	317,989
Total current assets		<u>9,242,919</u>	<u>6,571,706</u>
Non-current assets			
Investments accounted for using the equity method	13	7,835,571	-
Property, plant and equipment	14	5,851,072	5,955,028
Right-of-use assets	15	5,101,083	4,507,400
Intangibles	16	5,770,960	5,359,218
Total non-current assets		<u>24,558,686</u>	<u>15,821,646</u>
Total assets		<u>33,801,605</u>	<u>22,393,352</u>
Liabilities			
Current liabilities			
Trade and other payables	17	2,286,193	2,689,713
Borrowings	18	9,443,491	5,213,178
Lease liabilities	20	1,962,737	1,701,752
Royalty payables	21	277,469	55,811
Employee benefits		179,513	137,095
Provisions	19	-	357,477
Total current liabilities		<u>14,149,403</u>	<u>10,155,026</u>
Non-current liabilities			
Lease liabilities	20	169,449	583,240
Royalty payables	21	3,206,142	531,454
Total non-current liabilities		<u>3,375,591</u>	<u>1,114,694</u>
Total liabilities		<u>17,524,994</u>	<u>11,269,720</u>
Net assets		<u>16,276,611</u>	<u>11,123,632</u>
Equity			
Issued capital	22	89,387,844	81,247,380
Reserves	23	20,848,635	17,852,349
Accumulated losses		<u>(93,959,868)</u>	<u>(87,976,097)</u>
Total equity		<u>16,276,611</u>	<u>11,123,632</u>

The above statement of financial position should be read in conjunction with the accompanying notes

Carbonxt Group Limited
Statement of changes in equity
For the year ended 30 June 2023



Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2021	76,789,766	15,106,434	(83,517,592)	8,378,608
Loss after income tax expense for the year	-	-	(4,458,505)	(4,458,505)
Other comprehensive income for the year, net of tax	-	1,266,111	-	1,266,111
Total comprehensive (loss)/income for the year	-	1,266,111	(4,458,505)	(3,192,394)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 22)	4,194,034	-	-	4,194,034
Shares issued on the exercise of options (note 22, note 23)	14,400	-	-	14,400
Share-based payments (note 22, note 23)	249,180	1,479,804	-	1,728,984
Balance at 30 June 2022	81,247,380	17,852,349	(87,976,097)	11,123,632
Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2022	81,247,380	17,852,349	(87,976,097)	11,123,632
Loss after income tax expense for the year	-	-	(5,983,771)	(5,983,771)
Other comprehensive income for the year, net of tax	-	614,845	-	614,845
Total comprehensive (loss)/income for the year	-	614,845	(5,983,771)	(5,368,926)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 22)	8,024,183	-	-	8,024,183
Share-based payments (note 22, note 23)	116,281	2,381,441	-	2,497,722
Balance at 30 June 2023	89,387,844	20,848,635	(93,959,868)	16,276,611

The above statement of changes in equity should be read in conjunction with the accompanying notes

Carbonxt Group Limited
Statement of cash flows
For the year ended 30 June 2023



	Note	Consolidated 2023 \$	2022 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		15,210,954	17,604,935
Payments to suppliers and employees (inclusive of GST)		<u>(17,807,209)</u>	<u>(19,534,866)</u>
		(2,596,255)	(1,929,931)
Interest received		51,265	983
Receipts of government grants	6	<u>124,740</u>	<u>49,600</u>
Net cash used in operating activities	32	<u>(2,420,250)</u>	<u>(1,879,348)</u>
Cash flows from investing activities			
Payments for investment in NewCarbon	13	(7,835,571)	-
Payments for plant and equipment	14	(410,044)	(811,837)
Payments for intangible assets	16	<u>(812,835)</u>	<u>(755,428)</u>
Net cash used in investing activities		<u>(9,058,450)</u>	<u>(1,567,265)</u>
Cash flows from financing activities			
Proceeds from issue of shares	22	8,497,188	5,534,320
Proceeds from borrowings	32	9,050,000	-
Share issue transaction costs	22	(473,005)	(576,991)
Repayment of lease liabilities	32	(1,763,108)	(1,395,955)
Interest on lease liabilities	32	(136,053)	(196,109)
Interest and other finance costs paid		<u>(497,532)</u>	<u>(525,363)</u>
Net cash from financing activities		<u>14,677,490</u>	<u>2,839,902</u>
Net increase/(decrease) in cash and cash equivalents		3,198,790	(606,711)
Cash and cash equivalents at the beginning of the financial year		1,090,450	1,645,579
Effects of exchange rate changes on cash and cash equivalents		<u>16,598</u>	<u>51,582</u>
Cash and cash equivalents at the end of the financial year	9	<u><u>4,305,838</u></u>	<u><u>1,090,450</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The financial statements cover Carbonxt Group Limited as a Group consisting of Carbonxt Group Limited ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the year (referred to in these financial statements as the 'Group'). The financial statements are presented in Australian dollars, which is Carbonxt Group Limited's functional and presentation currency.

Carbonxt Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

Level 12, Grosvenor Place
225 George Street
Sydney NSW 2000
Australia

Principal place of business

Suite 111
3951 NW 48th Terrace
Gainesville FL 32606
United States of America

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 31 August 2023. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the full financial year ended 30 June 2023.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going Concern

The financial statements have been prepared on the going concern basis, which assume that the Group will be able to realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial report.

During the financial year ended 30 June 2023, the Group incurred a net loss after tax of \$5,983,771 (30 June 2022: \$4,458,505) and operating cash outflows of \$2,420,250 (30 June 2022: \$1,879,348). At 30 June 2023, the cash and cash equivalents were \$4,305,838 (30 June 2022: \$1,090,450) and net current liabilities of \$4,906,484 (30 June 2022: \$3,583,320).

The Directors, in their consideration of the appropriateness of the going concern basis for the preparation of the financial statements, have prepared a cash flow forecast through to December 2024 which requires the Group to obtain ongoing support from lenders, generate positive cash flows from operations and its associate or be able to raise capital to have sufficient cash to continue as a going concern. Should the Group be unsuccessful in achieving these matters, a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern and, whether it will realise its assets and extinguish its liabilities other than in the normal course of business.

At the date of signing this report, the Directors have reasonable grounds to believe the Group will be able to achieve the matters noted above and that it is appropriate to prepare the financial statements on the going concern basis.

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

Note 2. Significant accounting policies (continued)

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 35.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Carbonxt Group Limited as at 30 June 2023 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of businesses is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

When the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Carbonxt Group Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the Company's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Note 2. Significant accounting policies (continued)

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency translation reserve in equity.

The foreign currency translation reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Sale of activated carbon

Revenue from the sale of activated carbon is recognised at a point in time when the activated carbon is delivered in accordance with agreements with customers.

Consultancy fees

Consultancy fees which includes on site testing are recognised at a point in time as the service has been provided.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Interest income

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Cost of goods sold

Cost of goods sold includes purchase and production testing costs, milling, blending and bagging costs.

Government grants

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and that the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Note 2. Significant accounting policies (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

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

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Inventories

Inventories are stated at the lower of cost and net realisable value at average cost including haulage.

Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. Cost is determined after deducting rebates and discounts received or receivable

Note 2. Significant accounting policies (continued)

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Associates

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities reduce the carrying amount of the investment.

Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost of property, plant and equipment constructed includes the cost of materials, direct labour and borrowing costs.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss in the period incurred.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives as follows:

Plant and equipment	3-20 years
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The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Note 2. Significant accounting policies (continued)

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities. Depreciation is calculated as follows:

Plant right-of-use assets	over the useful life of 20 years or the lease term of 2-5 years
Equipment right-of-use assets	over the lease term of 3 years

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred within the cost of goods sold.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 20 years.

Engineering Performance Solutions ('EPS') patents

Significant costs associated with the acquisition of the patents rights owned by EPS are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of 16 years.

Other patents

Significant costs associated with owned, pending and licensed patents are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of 20 years.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Note 2. Significant accounting policies (continued)

Warrants

Warrants issued by the Group in connection with bank loans or issued capital are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Where the warrants meet the definition of equity, they are initially measured at fair value and recognised in a warranty reserve. Where the warrants do not meet the definition of equity, they are initially measured at fair value with a corresponding reduction to the associated borrowings if associated with bank loans or as an allocation of proceeds received if associated with a share issue. Subsequent to initial recognition, the liability is fair valued until the warrant either converts or expires, with gains or losses recognised in the profit or loss.

If warrant are issued to compensate the lender for the set-up of the loan, the warrants are recognised as share-based payment transaction.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

Note 2. Significant accounting policies (continued)

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Carbonxt Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Note 2. Significant accounting policies (continued)

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number additional ordinary shares that would have been outstanding assuming conversion of all dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2023. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 2020-1 Amendments to AASs – Classification of Liabilities as Current or Non-current

These amendments are applicable are for annual reporting periods beginning on or after 1 January 2023. These amendments to AASB 101 *Presentation of Financial Statements* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. These amendments are applied retrospectively. Earlier application is permitted. The Group does not expect the amendments to have a significant impact on the financial statements.

AASB 2021-2 Amendments to AASB 108 – Definition of Accounting Estimates

These amendments are applicable are for annual reporting periods beginning on or after 1 January 2023. These amendments to AASB 108 clarify the definition of an accounting estimate, making it easier to differentiate it from an accounting policy. The distinction is necessary as their treatment and disclosure requirements are different. Critically, a change in an accounting estimate is applied prospectively whereas a change in an accounting policy is generally applied retrospectively. The new definition provides that 'Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty'. The amendments are applied prospectively. Earlier application is permitted. The Group does not expect the amendments to have a significant impact on the financial statements.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. Key assumptions include: market price of the underlying asset; prevailing level of the risk free rate; expected volatility of the value of the underlying asset over the period until the expiry of the option; level of dividends expected to be paid on the asset in the period until the expiry of the option and their timing; probability of options held being exercised; and performance conditions. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Royalty payable

This is remeasured at each reporting period for changes to cashflows which requires estimation and judgement. The judgements include considerations of forecasted sales volumes and price assumptions. The Company reviews any changes in assumptions and this is done for each reporting period until the end of the contract period. Changes in assumptions about these factors could affect the reported value of the amount payable.

Development costs

The Group capitalises costs for product development projects. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when the product has consistently meeting the defined specifications at commercial-scale throughputs. At 30 June 2023, the carrying amount of capitalised development costs was \$3,884,210 (2022: \$3,370,373).

Impairment of non-financial assets

The Group assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the Group based on known information and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves assessing the value of the asset at fair value less costs of disposal and using value-in-use models which incorporate a number of key estimates and assumptions.

Note 4. Operating segments

Identification of reportable operating segments

The Group only has one reportable segment being the development and sale of specialised Activated Carbon ('AC') products, principally in the United States of America. This is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The information reported to the CODM is on a monthly basis.

Major customers

During the year ended 30 June 2023 approximately 51% (2022: 58.5%) of the Group's external revenue was derived from sales to one customer.

Geographical information

	Sales to external customers		Geographical non-current assets	
	2023	2022	2023	2022
	\$	\$	\$	\$
Australia	-	-	429,719	587,402
United States of America	15,461,953	18,363,422	24,128,967	15,209,100
	<u>15,461,953</u>	<u>18,363,422</u>	<u>24,558,686</u>	<u>15,796,502</u>

The geographical non-current assets above are exclusive of, where applicable, financial instruments and deferred tax assets, post-employment benefits assets and rights under insurance contracts.

Note 5. Revenue

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	2023	2022
	\$	\$
<i>Major product lines</i>		
Sale of activated carbon	15,433,812	18,327,048
Consultancy fees	28,141	36,374
	<u>15,461,953</u>	<u>18,363,422</u>
<i>Geographical regions</i>		
United States of America	<u>15,461,953</u>	<u>18,363,422</u>
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	<u>15,461,953</u>	<u>18,363,422</u>

Note 6. Other income

	Consolidated	
	2023	2022
	\$	\$
Remeasurement gain on license royalty (note 21)	123,059	392,304
Government grants	124,740	49,600
Insurance recoveries	304,820	-
Other income	-	40,026
	<u>552,619</u>	<u>481,930</u>

Government grants

The Group also received cash receipts of \$124,740 (US\$84,000) (2022: \$49,600 (US\$36,000)) for a Florida State Grant through the Florida Red Tide Mitigation and Technology Development Initiative.

The support payments were received in the United States, and no funds were received in Australia.

Note 7. Expenses

	Consolidated	
	2023	2022
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	741,433	741,530
Plant right-of-use assets	1,078,986	869,986
Equipment right-of-use assets	34,636	40,019
	<u>1,855,055</u>	<u>1,651,535</u>
Total depreciation		
<i>Amortisation</i>		
Development	344,168	317,384
Engineering Performance Solutions ('EPS') patents	153,655	90,360
Other patents	91,554	79,261
	<u>589,377</u>	<u>487,005</u>
Total amortisation		
Total depreciation and amortisation	<u>2,444,432</u>	<u>2,138,540</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	1,014,374	895,637
Interest and finance charges paid/payable on lease liabilities	136,053	196,109
Interest on royalty payables	68,987	-
	<u>1,219,414</u>	<u>1,091,746</u>
Finance costs expensed		
<i>Other expenses</i>		
Insurance costs	773,315	880,607
Legal costs	74,928	12,758
Other expenses	-	9,183
Technical feasibility expense	210,638	532,418
Other occupancy expense	104,161	158,589
	<u>1,163,042</u>	<u>1,593,555</u>
Total other expenses		

Note 8. Income tax

	Consolidated	
	2023	2022
	\$	\$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(5,983,771)	(4,458,505)
Tax at the statutory tax rate of 25%	(1,495,943)	(1,114,626)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Deferred tax assets not recognised	1,495,943	1,114,626
Income tax expense	<u>-</u>	<u>-</u>

Note 8. Income tax (continued)

	Consolidated	
	2023	2022
	\$	\$
<i>Tax losses not recognised</i>		
Unused Australian tax losses for which no deferred tax asset has been recognised	27,262,442	25,012,259
Potential tax benefit @ 25%	6,815,611	6,253,065
Unused United States tax losses for which no deferred tax asset has been recognised	63,083,645	53,195,720
Potential tax benefit @ 21.0%	13,247,565	11,171,101

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

As of 30 June 2023, the Group also has capital losses of \$3,000,000 (2022: \$3,000,000).

Note 9. Cash and cash equivalents

	Consolidated	
	2023	2022
	\$	\$
<i>Current assets</i>		
Cash on hand	20	20
Cash at bank	4,237,098	1,024,300
Cash on deposit	68,720	66,130
	<u>4,305,838</u>	<u>1,090,450</u>

Note 10. Trade and other receivables

	Consolidated	
	2023	2022
	\$	\$
<i>Current assets</i>		
Trade receivables	<u>1,425,107</u>	<u>2,041,003</u>

Allowance for expected credit losses

The Group assessed that the allowance for expected credit losses is not material for the year ended 30 June 2023 and 30 June 2022.

There are no customers that are past due but not impaired.

For personal use only

Note 11. Inventories

	Consolidated	
	2023	2022
	\$	\$
<i>Current assets</i>		
Raw materials - at cost	1,486,769	1,781,600
Work in progress - at cost	-	649,569
Activated carbon finished goods - at cost	1,818,738	691,095
	<u>3,305,507</u>	<u>3,122,264</u>

During the year, \$60,083 (30 June 2022: \$nil) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

Note 12. Other

	Consolidated	
	2023	2022
	\$	\$
<i>Current assets</i>		
Prepayments	71,628	306,069
GST receivable	134,839	11,920
	<u>206,467</u>	<u>317,989</u>

Note 13. Investments accounted for using the equity method

	Consolidated	
	2023	2022
	\$	\$
<i>Non-current assets</i>		
Investment in associate	<u>7,835,571</u>	<u>-</u>

Reconciliation

Reconciliation of the carrying amounts at the beginning and end of the current and previous financial year are set out below:

Opening carrying amount	-	-
Additions	7,540,724	-
Capitalised cost	200,213	-
Foreign exchange difference	94,634	-
	<u>7,835,571</u>	<u>-</u>
Closing carrying amount	<u>7,835,571</u>	<u>-</u>

Interests in NewCarbon

On 31 May 2023, the Group executed an agreement with KCP to establish a new state-of-the art activated carbon plant in Kentucky, USA which resulted to a formation of a Kentucky limited liability named NewCarbon Processing, LLC ("NewCarbon"). The Group has agreed to contribute US\$10,000,000 in cash to NewCarbon while KCP agreed to contribute US\$10,000,000 in value of assets, infrastructure and equipment. The contributions will result to a 50-50 ownership between the two parties.

As at 30 June 2023, the Group made an initial contribution of US\$5,000,000 which resulted to a 33.33% ownership in NewCarbon and shall make the remaining contributions in stages subject to completion of milestones to increase its ownership to 50%. The future contributions are disclosed as commitment in note 28.

Note 13. Investments accounted for using the equity method (continued)

The Group's interest in NewCarbon is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarised financial information of the Group's investment in NewCarbon:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2023 %	2022 %
NewCarbon Processing, LLC	USA	33.33%	-
<i>Summarised financial information</i>			
		2023	
		\$	
<i>Summarised statement of financial position</i>			
Non-current assets			22,624,434
Total assets			22,624,434
Current liabilities			-
Total liabilities			-
Net assets			<u>22,624,434</u>

Summarised statement of profit or loss and other comprehensive income

NewCarbon has just been established and has not started operations during the period from 1 June 2023 to 30 June 2023, thus has no share in profit or loss recorded from the date of investment.

Note 14. Property, plant and equipment

	Consolidated	
	2023 \$	2022 \$
<i>Non-current assets</i>		
Plant and equipment - at cost	9,711,941	8,229,039
Less: Accumulated depreciation	<u>(4,037,605)</u>	<u>(3,161,055)</u>
	5,674,336	5,067,984
Construction in progress	<u>176,736</u>	<u>887,044</u>
	<u>5,851,072</u>	<u>5,955,028</u>

Note 14. Property, plant and equipment (continued)

Reconciliations

Reconciliations of the carrying values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Plant and equipment \$	Construction in progress \$	Total \$
Balance at 1 July 2021	5,101,626	112,155	5,213,781
Additions	-	1,046,299	1,046,299
Reclassification from construction in progress	281,761	(281,761)	-
Exchange differences	426,127	10,351	436,478
Depreciation expense	(741,530)	-	(741,530)
Balance at 30 June 2022	5,067,984	887,044	5,955,028
Additions	-	410,044	410,044
Disposals	-	-	-
Reclassification from construction in progress	1,143,499	(1,143,499)	-
Exchange differences	204,286	23,147	227,433
Depreciation expense	(741,433)	-	(741,433)
Balance at 30 June 2023	<u>5,674,336</u>	<u>176,736</u>	<u>5,851,072</u>

Note 15. Right-of-use assets

	Consolidated	
	2023	2022
	\$	\$
<i>Non-current assets</i>		
Plant - right-of-use	8,185,364	6,622,867
Less: Accumulated depreciation	(3,321,587)	(2,142,000)
	<u>4,863,777</u>	<u>4,480,867</u>
Equipment - right-of-use	422,184	170,602
Less: Accumulated depreciation	(184,878)	(144,069)
	<u>237,306</u>	<u>26,533</u>
	<u>5,101,083</u>	<u>4,507,400</u>

The Group leased a building for its offices under a non-cancellable lease that expires on 12 March 2024. The Group also leases two industrial facilities as well as equipment for the manufacture of activated carbon from its premises. The facilities have the capacity to manufacture up to 17,000 tons per annum of activated carbon products. The initial term of the first lease is for 50 years with three additional terms of 10 years each. The lease commenced upon launch of operations in July 2018. Monthly lease payments began on 15 July 2018. This lease comprises of a combination of variable and fixed lease payments for the first five years. Subsequent to this, the lease payments will be variable. Variable lease payments are not recognised as right-of-use assets (or lease liabilities). For the year ended 30 June 2023, variable lease payments amounted to \$110,703 (2022: \$28,154). The initial term of the second lease is for five years with one additional term of five years. The lease commenced on 1 January 2019.

Note 15. Right-of-use assets (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Plant-right-of use \$	Equipment- right-of use \$	Total \$
Balance at 1 July 2021	4,075,251	26,636	4,101,887
Additions	901,806	37,614	939,420
Exchange differences	373,796	2,302	376,098
Depreciation expense	(869,986)	(40,019)	(910,005)
Balance at 30 June 2022	4,480,867	26,533	4,507,400
Additions	1,283,640	241,135	1,524,775
Exchange differences	178,256	4,274	182,530
Depreciation expense	(1,078,986)	(34,636)	(1,113,622)
Balance at 30 June 2023	<u>4,863,777</u>	<u>237,306</u>	<u>5,101,083</u>

For other AASB 16 disclosures refer to:

- note 7 for details of depreciation on right-of-use assets, interest on lease liabilities and other lease payments;
- note 20 for lease liabilities at year end;
- note 25 for maturity analysis of lease liabilities; and
- consolidated statement of cash flow for repayment of lease liabilities.

Note 16. Intangibles

<i>Non-current assets</i>	Consolidated	
	2023	2022
	\$	\$
Development - at cost	4,604,261	3,726,927
Less: Accumulated amortisation	(720,051)	(356,554)
	<u>3,884,210</u>	<u>3,370,373</u>
Engineering Performance Solutions ('EPS') patents - at cost	1,445,822	1,445,822
Less: Accumulated amortisation	(1,012,075)	(858,420)
	<u>433,747</u>	<u>587,402</u>
Other patents and development - at cost	2,256,660	2,098,432
Less: Accumulated amortisation	(803,657)	(696,989)
	<u>1,453,003</u>	<u>1,401,443</u>
	<u>5,770,960</u>	<u>5,359,218</u>

Note 16. Intangibles (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Development costs \$	EPS patents \$	Other patents \$	Total \$
Balance at 1 July 2021	2,897,491	677,762	1,277,243	4,852,496
Additions	541,557	-	91,088	632,645
Exchange differences	248,709	-	112,373	361,082
Amortisation expense	(317,384)	(90,360)	(79,261)	(487,005)
Balance at 30 June 2022	3,370,373	587,402	1,401,443	5,359,218
Additions	723,031	-	89,804	812,835
Exchange differences	134,974	-	53,310	188,284
Amortisation expense	(344,168)	(153,655)	(91,554)	(589,377)
Balance at 30 June 2023	<u>3,884,210</u>	<u>433,747</u>	<u>1,453,003</u>	<u>5,770,960</u>

Engineering Performance Solutions ('EPS') patent

The Group has an exclusive license to a patent owned by EPS for magnetic activated carbon technology that maximises mercury capture from flue gas. As part of the agreement, EPS is entitled to royalties based on a percentage of revenue from the sale of products by the Group that uses the EPS technology. The liability is held at amortised cost and is recognised in the statement of financial position. Refer to note 21.

Note 17. Trade and other payables

	Consolidated 2023 \$	2022 \$
<i>Current liabilities</i>		
Trade payables	1,920,046	2,288,046
Accrued expenses	297,056	304,670
Other payables	69,091	96,997
	<u>2,286,193</u>	<u>2,689,713</u>

Refer to note 25 for further information on financial instruments.

Note 18. Borrowings

	Consolidated 2023 \$	2022 \$
<i>Current liabilities</i>		
Pure loan payable	<u>9,443,491</u>	<u>5,213,178</u>

Note 18. Borrowings (continued)

Pure loan payable

On 24 May 2019, the Group entered into a finance facility of \$5,500,000. The interest rate is 9.5% per annum with a term of 4 years. The lender is issued warrant shares at 60 cents per share. Total number of warrants issued is 9,166,670 with expiry date of 24 May 2023 which have been recognised as transaction cost of \$1,135,892 capitalised against the loan. Transaction costs are amortising over the term of the loan. As a result of capital raisings during the 30 June 2021 financial year, the anti-dilution provisions of the Warrant Deed with Pure Asset Management and its co-investors was triggered resulting in the warrant exercise price reducing from \$0.52 to \$0.17, being 110% of the issue price of \$0.15 in the most recent capital raising. On 30 May 2023, the warrants expired without the exercise of conversion.

The Group entered into an agreement with Pure Asset Management Pty Ltd ("Pure") on 23 May 2023 to amend and restate the Facility Agreement dated 24 May 2019 with effect on and from 31 May 2023. Under the amended and restated loan facility agreement, the existing loan of \$5,500,000 was refinanced and an additional \$9,500,000 was drawn down from the facility which will be used to fund the NewCarbon Processing LLC, acquisitions and product development, and for working capital purposes. In consideration of entering the amended and restated facility agreement, the Group paid establishment fee of \$450,000 which resulted to a proceeds from borrowings of \$9,050,000 and subject to the Shareholders' Approval, the Group is required to issue warrant shares of 64,000,000 in different tranches to Pure (see note 34) which have been recognised as transaction cost of \$2,339,000 and capitalised against the loan. The Group also agreed to pay Pure a royalty which the present value of future cash flows is \$2,956,598 and was recorded against the loan (see note 21). As at 30 June 2023, the loan balance is \$9,443,491 which includes accretion of interest expense of \$189,089.

The new facility is payable on 31 May 2027, which 48 months after the date of utilisation. The facility is accruing an interest of 9.5% per annum (14% per annum at the event of default).

The financial covenant includes the following:

- (a) Cash balance to be greater than \$3,000,000 at all times.
- (b) Cash balance to be greater than \$5,500,000 during certain periods.
- (c) Beginning 30 June 2024, event of default will occur if at the end of each quarter, the net debt divided by 6-month Trailing Underlying EBITDA is greater than 8 times and review event will occur if greater than 6 times.
- (d) Trailing 12-month EBITDA greater than \$7 million as at 30 July 2025.

During the year, an event of default under the terms of the amended and restated facility agreement with Pure occurred as a result of the Group's cash balance falling below AU\$5,500,000 on 31 May 2023. An event of default provides the Lender to demand full repayment of the loan. As at 30 June 2023 and up to the date of this report, the Lender or its agent has not notified the Group for the full repayment of the loan and continued to be supportive to the Group. Nonetheless, the loan has been classified as current as at 30 June 2023 as the Group does not have the unconditional right to defer settlement of the liability for at least twelve months after the reporting period as a result of the event of default.

Assets pledged as security

The loan is secured by first mortgage over the Group's assets.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2023	2022
	\$	\$
Total facilities		
Pure Loan facility	15,000,000	5,500,000
Used at the reporting date		
Pure Loan facility	15,000,000	5,500,000
Unused at the reporting date		
Pure Loan facility	-	-

Note 19. Provisions

	Consolidated	
	2023	2022
	\$	\$
<i>Current liabilities</i>		
Other	-	357,477
	<u>-</u>	<u>357,477</u>

Other

On 28 June 2022, the Company was made aware by one of its customers that its pellets had softened in application and subsequently infiltrated a chemical solution unit. The pellets had been installed using a method with which the Company was unfamiliar. The unit was cleaned out and chemical solution replaced. The customer requested the Company to cover replacement cost of the solution and related expenses, estimated US\$246,266 (\$357,477 as of 30 June 2022) and as such, the Company has made a provision for these costs. The amount was settled during the year 30 June 2023.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	<i>Other</i>
	\$
Consolidated - 2023	
Carrying amount at the start of the year	357,477
Amounts used	<u>(357,477)</u>
Carrying amount at the end of the year	<u>-</u>

Note 20. Lease liabilities

	Consolidated	
	2023	2022
	\$	\$
<i>Current liabilities</i>		
Lease liability	1,962,737	1,701,752
<i>Non-current liabilities</i>		
Lease liability	169,449	583,240
	<u>2,132,186</u>	<u>2,284,992</u>

Refer to note 25 for maturity analysis of lease liabilities.

Refer to note 32 for the reconciliation of the carrying value.

Note 21. Royalty payables

	Consolidated	
	2023	2022
	\$	\$
<i>Current liabilities</i>		
Royalty payables	277,469	55,811
<i>Non-current liabilities</i>		
Royalty payables	3,206,142	531,454
	<u>3,483,611</u>	<u>587,265</u>

Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

Opening balance	587,265	1,020,908
Gains recognised in profit or loss	(123,059)	(392,304)
Payments	(6,180)	(41,339)
Royalty payable to Pure (note 18)	2,956,598	-
Accretion of interest	68,987	-
Closing balance	<u>3,483,611</u>	<u>587,265</u>

Royalty payable from EPS licence

The Group has an exclusive licence from EPS to use its patented technology up to 17 March 2028. Royalties are payable to EPS out of revenue received by the Group from the sale of products using the EPS technology, as follows:

- sale price below US\$2,000 per ton - 1% of revenue;
- sale price of US\$2,000 to US\$2,500 per ton - 2% of revenue;
- sale price of US\$2,500 to US\$3,000 per ton - 3% of revenue; and
- sale price above US\$3,000 per ton - 4% of revenue.

The royalty payable balance as of 30 June 2023 from EPS license is \$414,448 (2022: \$587,265).

Royalty payable with Pure Asset Management

During 30 June 2023, the Company signed the agreement with Pure as disclosed in note 18. The term of the royalty is from 31 May 2023 until the royalty is bought out. The Group may only elect to purchase the royalty if the loan obtained from Pure including any unpaid royalty is less than \$7,500,000 on the earlier of the date that is any point in time after 31 May 2026 and the date on which a board recommended takeover occurs in respect of the Group. During the term of the loan, the Company must pay Pure 5% of all cash and cash equivalents received by the Group in relation to the Group's entitlement under the investment in NewCarbon. The estimated present value of the royalty payable as of 30 June 2023 is \$3,025,585 including accretion of interest of \$68,987.

Note 22. Issued capital

	2023	2022	Consolidated	2022
	Shares	Shares	2023	2022
			\$	\$
Ordinary shares - fully paid	<u>275,298,873</u>	<u>189,367,985</u>	<u>89,387,844</u>	<u>81,247,380</u>

Note 22. Issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2021	162,590,367		76,789,766
Shares placement ⁽ⁱ⁾	20 July 2021	6,800,000	\$0.15	1,020,000
Shares issued on the exercise of option	17 November 2021	60,000	\$0.24	14,400
Shares placement ⁽ⁱ⁾	18 February 2022	18,749,667	\$0.24	4,499,920
Shares issued to employees in lieu of compensation ⁽ⁱⁱ⁾	7 April 2022	1,016,321	\$0.22	212,875
Shares issued to employees in lieu of compensation ⁽ⁱⁱ⁾	6 May 2022	65,861	\$0.27	17,718
Shares issued to employees in lieu of compensation ⁽ⁱⁱ⁾	8 June 2022	85,769	\$0.22	18,587
Transaction costs on issuance of shares ⁽ⁱ⁾				(434,398)
Transaction costs on fair value of share options ⁽ⁱ⁾		-	\$0.00	(891,488)
Balance	30 June 2022	189,367,985		81,247,380
Shares issued to employees in lieu of compensation ^(v)	7 July 2022	99,118	\$0.19	18,644
Shares issued under the Retail Entitlement Offer ^(iv)	10 August 2022	2,863,483	\$0.14	400,888
Shares issued to employees in lieu of compensation ^(v)	11 August 2022	118,100	\$0.16	19,132
Shares placement - tranche 1 ^(iv)	30 September 2022	13,114,383	\$0.10	1,311,719
Shares issued under share purchase plan ^(iv)	3 November 2022	16,103,000	\$0.10	1,610,300
Shares issued for nil consideration ⁽ⁱⁱⁱ⁾	8 December 2022	1,145,393	\$0.00	-
Shares placement - tranche 2 ^(iv)	8 December 2022	43,442,810	\$0.10	4,344,281
Shares placement - tranche 2 ^(iv)	16 December 2022	8,300,000	\$0.10	830,000
Shares issued to employees in lieu of compensation ^(v)	19 December 2022	152,890	\$0.12	18,805
Shares issued to employees in lieu of compensation ^(v)	19 December 2022	184,157	\$0.11	19,521
Shares issued to employees in lieu of compensation ^(v)	19 December 2022	175,759	\$0.10	18,103
Shares issued to employees in lieu of compensation ^(v)	19 December 2022	106,095	\$0.10	11,140
Shares issued to employees in lieu of compensation ^(v)	1 February 2023	125,700	\$0.09	10,936
Share issue costs ^(iv)		-		(473,005)
Balance	30 June 2023	<u>275,298,873</u>		<u>89,387,844</u>

(i) Total value of shares issued was \$4,194,034 net of transaction costs.

(ii) Total value of shares issued to employees in lieu of compensation was \$249,180.

(iii) On 8 December 2022, the Company issued 1,145,393 shares to the rights issue participants for nil consideration to provide them with the same amount of shares as if they had participated in the issue at same price as the September 2022 placement.

(iv) Total value of shares issued was \$8,024,183 net of transaction costs.

(v) Total value of shares issued to employees in lieu of compensation was \$116,281.

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Note 22. Issued capital (continued)

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

There are no externally imposed capital requirements.

The capital risk management policy has not changed from the 30 June 2022 Annual Report.

Note 23. Reserves

	Consolidated	
	2023	2022
	\$	\$
Financial liability reserve	8,853,868	8,853,868
Foreign currency translation reserve	1,353,451	738,606
Share-based payments reserve	10,078,185	7,696,744
Convertible note equity reserve	563,131	563,131
	<u>20,848,635</u>	<u>17,852,349</u>

Financial liability reserve

This reserve records movements in the fair value of investor loans when investor loans were converted to capital in 2008.

Foreign currency translation reserve

This reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Share-based payments reserve

This reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Convertible note equity reserve

This reserve is used to recognise the equity portion of the convertible notes issued.

Note 23. Reserves (continued)

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Financial liability reserve \$	Foreign currency translation reserve \$	Share-based payments reserve \$	Convertible note equity reserve \$	Total \$
Balance at 1 July 2021	8,853,868	(527,505)	6,216,940	563,131	15,106,434
Foreign currency translation	-	1,266,111	-	-	1,266,111
Share-based payment expense	-	-	588,316	-	588,316
Share-based payment recorded as transaction costs	-	-	891,488	-	891,488
Balance at 30 June 2022	8,853,868	738,606	7,696,744	563,131	17,852,349
Foreign currency translation	-	614,845	-	-	614,845
Shares issued to employees in lieu of compensation	-	-	42,441	-	42,441
Warrants issued	-	-	2,339,000	-	2,339,000
Balance at 30 June 2023	<u>8,853,868</u>	<u>1,353,451</u>	<u>10,078,185</u>	<u>563,131</u>	<u>20,848,635</u>

Note 24. Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 25. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group may use derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a regular basis.

Market risk

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Note 25. Financial instruments (continued)

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Consolidated	Assets		Liabilities	
	2023	2022	2023	2022
	\$	\$	\$	\$
US dollars	-	658,588	3,483,611	587,265

Consolidated - 2023	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity before tax		Effect on profit before tax	Effect on equity before tax
US Dollars	10%	348,400	135,300	(10%)	(348,400)	(135,300)

Consolidated - 2022	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity before tax		Effect on profit before tax	Effect on equity before tax
US Dollars	10%	(7,100)	73,900	(10%)	7,100	(73,900)

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group's main interest rate risk arises from cash and cash equivalents. Cash and cash equivalents obtained at variable rates expose the Group to interest rate risk. Cash and cash equivalents obtained at fixed rates expose the Group to fair value interest rate risk.

As at the reporting date, the Group had the following variable rate cash and cash equivalents outstanding:

Consolidated	2023		2022	
	Weighted average interest rate %	Balance \$	Weighted average interest rate %	Balance \$
Cash at bank	1.20%	4,237,098	0.06%	1,024,300
Cash on deposit	0.01%	68,720	0.01%	66,130
Net exposure to cash flow interest rate risk		4,305,818		1,090,430

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

Consolidated - 2023	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Net exposure to cash flow interest rate risk	50	21,529	16,147	(50)	(21,529)	(16,147)

Note 25. Financial instruments (continued)

Consolidated - 2022	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Net exposure to cash flow interest rate risk	50	<u>5,493</u>	<u>4,120</u>	(50)	<u>(5,493)</u>	<u>(4,120)</u>

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

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Note 25. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2023	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	1,920,046	-	-	-	1,920,046
Other payables	-	69,091	-	-	-	69,091
<i>Interest-bearing - variable</i>						
EPS Royalty Payable	-	59,581	95,555	302,891	-	458,027
Pure Royalty Payable	-	194,542	594,082	7,021,949	-	7,810,573
<i>Interest-bearing - fixed rate</i>						
Pure loan payable	9.50%	-	-	15,000,000	-	15,000,000
Pure loan payable - Interest	-	947,913	947,913	1,895,827	-	3,791,653
Lease liability*	8.32%	551,058	-	-	-	551,058
Lease liability - Interest	-	17,730	-	-	-	17,730
Total non-derivatives		3,759,961	1,637,550	24,220,667	-	29,618,178

Lease liability consists of property leases at 6% and 9.5% interest rate and various equipment leases ranging from 6% - 8.5%.

Consolidated - 2022	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	2,288,046	-	-	-	2,288,046
Customer deposits	-	96,997	-	-	-	96,997
Royalty payable	-	57,483	79,257	423,283	97,982	658,005
<i>Interest-bearing - fixed rate</i>						
Pure loan payable	9.50%	5,500,000	-	-	-	5,500,000
Pure loan payable - Interest	-	468,103	-	-	-	468,103
Lease liability*	8.32%	1,615,233	551,250	2,339	-	2,168,822
Lease liability - Interest	-	122,928	19,784	36	-	142,748
Total non-derivatives		10,148,790	650,291	425,658	97,982	11,322,721

* Lease liability consists of property leases at 6% and 9.5% interest rate and various equipment leases ranging from 6% - 8.5%.

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 26. Fair value measurement

Fair value hierarchy

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature. The Group did not have financial assets or liabilities measured or disclosed at fair value.

Note 27. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the Company:

	Consolidated	
	2023	2022
	\$	\$
<i>Audit services - Ernst & Young</i>		
Audit or review of the financial statements	240,000	195,000
	240,000	195,000

Note 28. Contingent liabilities and capital commitments

Contingent liabilities

The Group had no contingent liabilities at 30 June 2023 and 30 June 2022.

Capital commitments

The Group's share of the capital commitments of its associate, NewCarbon, is as follows:

	Consolidated	
	2023	2022
	\$	\$
Committed at the reporting date but not recognised as liabilities:		
Investment in NewCarbon	7,541,478	-
	7,541,478	-

Note 29. Related party transactions

Parent entity

Carbonxt Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 31.

Equity accounted investment

Interests in NewCarbon are set out in note 13.

Key management personnel

Disclosures relating to key management personnel are set out in note 30 and the remuneration report included in the directors' report.

Transactions with Consultancy firms with common directors

Warren Murphy and David Mazyck provide consultancy services through their consulting firms as disclosed in the Remuneration Report under "Other transactions with KMP and their related parties".

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 29. Related party transactions (continued)

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 30. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2023	2022
	\$	\$
Short-term employee benefits	987,713	1,058,515
Share-based payments	85,996	145,730
	<u>1,073,709</u>	<u>1,204,245</u>

Note 31. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2023	2022
		%	%
Carbonxt Inc.	United States of America	100%	100%
Clear Carbon Innovations LLC	United States of America	100%	100%
Carbonxt Group Holdings LLC	United States of America	100%	100%

Note 32. Cash flow information

Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2023	2022
	\$	\$
Loss after income tax expense for the year	(5,983,771)	(4,458,505)
Adjustments for:		
Depreciation and amortisation	2,444,432	2,138,540
Share-based payments	177,830	841,141
Items classified as investing and financing activities	1,111,635	917,258
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	615,896	(823,025)
Increase in inventories	(183,243)	(1,479,117)
Decrease in other current assets	115,550	653
(Decrease)/increase in trade and other payables	(403,520)	613,870
Increase in employee benefits	42,418	12,360
(Decrease)/increase in customer provisions	(357,477)	357,477
Net cash used in operating activities	<u>(2,420,250)</u>	<u>(1,879,348)</u>

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Note 32. Cash flow information (continued)

Non-cash investing and financing activities

	Consolidated	Consolidated
	2023	2022
	\$	\$
Additions to the right-of-use assets	1,524,775	939,420
Options issued in lieu of transaction costs	-	891,488
	<u>1,524,775</u>	<u>1,830,908</u>

Changes in liabilities arising from financing activities

Consolidated	Pure loan payable \$	Lease liability \$	Total \$
Balance at 1 July 2021	4,853,675	2,539,741	7,393,416
Net cash used in financing activities	-	(1,592,064)	(1,592,064)
Interest expense	-	196,109	196,109
Acquisition of leases	-	939,420	939,420
Other changes	(2,862)	201,786	198,924
Balance at 30 June 2022	4,850,813	2,284,992	7,135,805
Net cash from/(used in) financing activities	9,050,000	(1,899,161)	7,150,839
Royalty payable	(2,956,598)	-	(2,956,598)
Warrant cost	(2,339,000)	-	(2,339,000)
Interest expense	999,843	136,053	1,135,896
Acquisition of leases	-	1,524,775	1,524,775
Other changes	(161,567)	85,527	(76,040)
Balance at 30 June 2023	<u>9,443,491</u>	<u>2,132,186</u>	<u>11,575,677</u>

Note 33. Earnings per share

	Consolidated	Consolidated
	2023	2022
	\$	\$
Loss after income tax attributable to the owners of Carbonxt Group Limited	<u>(5,983,771)</u>	<u>(4,458,505)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>242,456,050</u>	<u>176,157,803</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>242,456,050</u>	<u>176,157,803</u>
	Cents	Cents
Basic loss per share	(2.47)	(2.53)
Diluted loss per share	(2.47)	(2.53)

7,400,000 (2022: 36,541,810) options and warrants were excluded from the weighted average number of ordinary shares used in calculating diluted earnings per share as they were anti-dilutive.

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Note 34. Share-based payments

On 30 November 2017, shareholders at the Annual General Meeting ('AGM') approved the Employee Option Plan ('EOP'), whereby the Group may, at the discretion of the Board, grant options over ordinary shares in the Company to certain key management personnel of the Group. The options are issued for nil consideration.

On 13 July 2020, the Company issued a total of 2,400,000 options issued to the lead manager of placement, Cannacord Genuity (Australia) Limited, in lieu of fees.

On 18 January 2021, The Company issued a total of 2,200,000 shares at an issue price of \$0.16 per share to settle all the outstanding and future liabilities with United Conveyor Corporation.

On 27 August 2021, the Company issued a total of 5,000,000 options issued to Sixty Two Capital Pty Ltd as consideration for corporate advisory services. The options have an exercise price of \$0.24 and expire three years from the date of issue. The Advisor options are subject to the vesting schedule below:

- (i) 1,000,000 unlisted options upon signing the Agreement (Tranche 1 Options);
- (ii) 2,000,000 unlisted options with a vesting condition of the CG1 10-day VWAP being above \$0.40 (Tranche 2 Options); and
- (iii) 2,000,000 options with a vesting condition of the CG1 10- day VWAP being above \$0.60 (Tranche 3 Options).

On or around the date of the share-based payment transaction entered into with Sixty Two Capital Pty Ltd outlined above, the Company accrued \$96,000 for options to be issued to Sanlam Private Wealth as consideration for corporate advisory services. The options have an exercise price of \$0.24 and expire three years from the date of issue. These options were not issued as at 30 June 2022.

On 7 April 2022, 6 May 2022 and 8 June 2022, the Company issued shares to employees in lieu of salaries. The shares vest immediately and no future targets are required to be met.

On 19 December 2022, the Company issued shares to employees in lieu of salaries. The shares vest immediately and no future targets are required to be met.

The Company is required to issue warrants as part of the Pure loan agreement as disclosed in note 18. The terms of the warrant follows.

Number of warrants	64,000,000
Exercise price	(i) Tranche 1 - 18,000,000 exercisable at \$0.18 (ii) Tranche 2 - 16,000,000 exercisable at \$0.22 (iii) Tranche 3 - 15,000,000 exercisable at \$0.26 (iv) Tranche 4 - 15,000,000 exercisable at \$0.30
Exercise period	From issue date of the warrant to 30 November 2026
Expiry date	30 November 2026
Issue date	Proposed issue date 20 September 2023

The share-based payment in relation to the warrant for 2023 is \$2,339,000 (2022: \$nil). Total expense arising from share-based payment transactions during the financial the year was \$177,830 and all relates to shares issued to employees in lieu of salaries (30 June 2023: \$841,141 of which \$267,419 relates to shares issued to employees in lieu of salaries).

Note 34. Share-based payments (continued)

Set out below are summaries of options and warrants that existed during the year:

2023

Grant date	Expiry date	Exercise price	Balance at the start of the year	Additions*	Exercised	Expired/ forfeited/ other	Balance at the end of the year
24/05/2019	24/05/2023	\$0.17	9,166,670	-	-	(9,166,670)	-
13/07/2020	13/07/2023	\$0.17	800,000	-	-	-	800,000
13/07/2020	13/07/2023	\$0.20	800,000	-	-	-	800,000
13/07/2020	13/07/2023	\$0.22	800,000	-	-	-	800,000
27/08/2021	27/08/2024	\$0.24	5,000,000	-	-	-	5,000,000
31/05/2023	31/05/2027	\$0.18	-	18,000,000	-	-	18,000,000
31/05/2023	31/05/2027	\$0.22	-	16,000,000	-	-	16,000,000
31/05/2023	31/05/2027	\$0.26	-	15,000,000	-	-	15,000,000
31/05/2023	31/05/2027	\$0.30	-	15,000,000	-	-	15,000,000
			<u>16,566,670</u>	<u>64,000,000</u>	<u>-</u>	<u>(9,166,670)</u>	<u>71,400,000</u>
Weighted average exercise price			\$0.20	\$0.24	\$0.00	\$0.17	\$0.24

The additional warrants are subject to official approval and granting on 20 September 2023.

2022

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
30/11/2017	30/11/2021	\$0.50	3,500,000	-	-	(3,500,000)	-
23/02/2018	30/11/2021	\$0.50	300,000	-	-	(300,000)	-
23/02/2018	30/11/2021	\$0.70	475,000	-	-	(475,000)	-
19/09/2018	30/11/2021	\$0.56	200,000	-	-	(200,000)	-
24/05/2019	24/05/2023	\$0.17	9,166,670	-	-	-	9,166,670
13/07/2020	13/07/2023	\$0.17	800,000	-	-	-	800,000
13/07/2020	13/07/2023	\$0.20	800,000	-	-	-	800,000
13/07/2020	13/07/2023	\$0.22	800,000	-	-	-	800,000
27/08/2021	27/08/2024	\$0.24	-	5,000,000	-	-	5,000,000
			<u>16,041,670</u>	<u>5,000,000</u>	<u>-</u>	<u>(4,475,000)</u>	<u>16,566,670</u>
Weighted average exercise price			\$0.27	\$0.24	\$0.00	\$0.52	\$0.20

* Issued as part of capital raising

The weighted average remaining contractual life of options and warrants outstanding at the end of the financial year was 3.6 years (2022: 1.24 years).

The options vest immediately and no future targets are required to be met.

Note 35. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2023	2022
	\$	\$
Loss after income tax	(2,439,912)	(6,742,440)
Total comprehensive loss	(2,439,912)	(6,742,440)

Statement of financial position

	Parent	
	2023	2022
	\$	\$
Total current assets	4,057,878	315,756
Total assets	16,638,740	1,370,172
Total current liabilities	10,004,727	5,492,840
Total liabilities	13,210,869	6,024,294
Equity		
Issued capital	88,850,292	80,709,828
Financial liability reserve	8,853,868	8,853,868
Share-based payments reserve	10,078,185	7,696,744
Convertible note equity reserve	563,131	563,131
Accumulated losses	(104,917,605)	(102,477,693)
Total equity/(deficiency)	<u>3,427,871</u>	<u>(4,654,122)</u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2023 and 30 June 2022.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2023 and 30 June 2022.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2023 and 30 June 2022.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 36. Events after the reporting period

No matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Carbonxt Group Limited
Directors' declaration
30 June 2023



In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Warren Murphy
Managing Director

31 August 2023
Sydney

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working world**

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Independent Auditor's Report to the Members of Carbonxt Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Carbonxt Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2023 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial report, which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report. For the matter below, our description of how our audit addressed the matters is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Revenue Recognition

Why significant

During the year ended 30 June 2023, the Groups revenue from sales of activated carbon products totaled \$15.43 million which represents 99.8% of total revenue as disclosed in Notes 2 and 5 of the financial report.

The Group's policy is to recognise revenue from the sale of activated carbon at the point in time when the activated carbon is delivered in accordance with agreements with customers.

Given the quantitative importance this was considered to be a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included the following:

- Obtained an understanding of the process to record revenue and read relevant agreements to understand the terms and conditions.
- Assessed whether the Group recognised revenue in accordance with the requirements of Australian Accounting Standards.
- Analysed the relationship between revenue, receivables and cash through the use of data analytics.
- Selected a sample of revenue transactions and agreed the revenue recognised with reference to customer agreements, date of delivery and customer payment.
- Selected a sample of cash journals and traced the receipts from bank statements back to individual transactions.
- Selected a sample of pre and post year-end credit notes and assessed the reason for reversal of sales transactions to confirm the validity of sales recognised prior to year-end.
- Selected a sample of revenue transactions before and after year end to confirm revenue was recorded in the correct period.
- Assessed the adequacy of the disclosures in the Notes to the financial statements.

Borrowings and royalty liability

Why significant

During the year, the Group entered into an agreement to amend and restate the existing Facility Agreement with Pure Asset Management Pty Ltd (“Pure”) dated 24 May 2019, which was due to expire on 23 May 2023. The amended and restated facility agreement was conditional upon satisfaction of the conditions precedent which included (but not limited to) execution of the “Refinance Warrant Deed” and “Royalty deed”, which occurred during the year.

As disclosed in Notes 18 and 21 of the financial report, the attached warrants were treated as transaction costs of the loan and measured in accordance with AASB 2 *Share-based payment* while the royalty was recognised as a separate financial liability measured subsequently at amortised cost using the effective interest rate (“EIR”). As at 30 June 2023, the carrying amount of the loan was \$9.7 million and the royalty liability was \$3.03 million and the warrants had a fair value of \$2.3 million at initial recognition.

Given the complexity and judgment exercised in recognition and measurement of the components of the transaction, its value and importance to the users of the financial statements, this was considered to be a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included the following:

- Obtained the executed agreements in respect of the restated and amended loan facility, royalty deed, and refinance warranty deed and reviewed the key terms, restrictive covenants and other pertinent provisions of the loan for any evidence of derivatives.
- Obtained confirmation directly from the Lender and agreed the information to the underlying records and general ledger.
- Assessed the appropriateness of the accounting treatment and measurement of the loan including the warrants and royalty at initial recognition and at reporting period end in accordance with the requirements of Australian Accounting Standards.
- Assessed the appropriateness of the cash flows and discount rate used in the measurement of the royalty liability.
- Obtained the details of any covenants or other restrictive provisions of loan agreements, and performed calculations designed to test whether the Group has been in compliance throughout the year. In the case of non-compliance, reviewed evidence of waivers obtained and considered the appropriateness of classification of the debt in the financial statements.
- Assessed the adequacy of the disclosures in the Notes to the financial report

Information Other than the Financial Report and Auditor’s Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company’s 2023 Annual Report other than 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 and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.



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 on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group 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 to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year 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 Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 30 June 2023.

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



Responsibilities

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

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Scott Jarrett'.

Scott Jarrett
Partner
Sydney
31 August 2023

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Carbonxt Group Limited
Shareholder information
30 June 2023



The shareholder information set out below was applicable as at 21 August 2023.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Ordinary shares		Options over ordinary shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	107	0.02	-	-
1,001 to 5,000	305	0.31	-	-
5,001 to 10,000	168	0.47	-	-
10,001 to 100,000	491	6.90	-	-
100,001 and over	321	92.30	1	100.00
	1,392	100.00	1	100.00
Holding less than a marketable parcel	483	-	-	-

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	% of total shares issued
	Number held	
DDPEVCIC (WA) PTY LTD	10,871,838	3.95
MR CRAIG GRAEME CHAPMAN	10,745,151	3.90
BNP PARIBAS NOMINEES PTY LTD	9,992,962	3.63
ALTOR CAPITAL MANAGEMENT PTY LTD	8,803,061	3.20
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	8,067,797	2.93
LA ANDREWS INVESTMENTS PTY LTD	8,000,000	2.91
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,900,226	2.14
DIXSON TRUST PTY LIMITED	5,229,545	1.90
LA ANDREWS INVESTMENTS PTY LTD	4,920,000	1.79
MR LUKE ALEXANDER ANDREWS & MRS DANAE ELISE ANDREWS	4,830,000	1.75
TRANTER (SA) PTY LTD	4,500,000	1.63
UBS NOMINEES PTY LTD	4,260,885	1.55
CHALEYER HOLDINGS PTY LTD	4,000,000	1.45
HI FIVE INVESTMENTS PTY LTD	3,980,364	1.45
MR VICTOR LORUSSO	3,756,184	1.36
SPO EQUITIES PTY LTD	3,750,000	1.36
APPWAM PTY LTD	3,300,000	1.20
MELLOTTE HOLDINGS PTY LTD	3,229,872	1.17
MELBAR VIC PTY LTD	3,072,204	1.12
MR DEAN BRETT BLANKFIELD	3,043,992	1.11
	114,254,081	41.50

Ordinary shares held include escrowed shares.

Carbonxt Group Limited
Shareholder information
30 June 2023



Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	5,000,000	1

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares % of total shares issued
Number held	
Luke Andrews	17,750,000 6.45

Ordinary shares held include escrowed shares.

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Share buy-back

There is no current on-market share buy-back.

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