

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 2020
Previous period:	For the year ended 30 June 2019

2. Results for announcement to the market

The Group has adopted Accounting Standards AASB 16 'Leases' for the year ended 30 June 2020 using the modified retrospective approach and as such the comparatives have not been restated.

			\$
Revenues from ordinary activities	down	13.9% to	15,786,160
Underlying Loss Before Interest, Tax, Depreciation and Amortisation ('EBITDA')	down	73.7% to	(1,336,559)
Loss from ordinary activities after tax attributable to the owners of Carbonxt Group Limited	down	34.2% to	(4,388,789)
Loss for the year attributable to the owners of Carbonxt Group Limited	down	34.2% to	(4,388,789)

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 \$4,388,789 (30 June 2019: \$6,671,921).

The Coronavirus (COVID-19) pandemic impacted the sales of activated carbon of the Group due to a decline in demand as a result of plant shutdowns for annual maintenance of the Group's utility customers, in response to lower energy demands during the US COVID-19 pandemic lockdown. Although there is a decline in revenue, there is an emerging trend toward supply chain security and more regionalised product sourcing as the Group is the only activated carbon pellet manufacturing facility in the US.

The following table summarises key reconciling items between statutory loss after income tax and underlying EBITDA:

	Consolidated	
	2020	2019
	\$	\$
Revenue	15,786,160	18,325,205
Gross margin	5,044,315	3,513,895
Other income	816,901	26,010
Shipping cost	(1,375,284)	(1,866,569)
Cash operating expenses	(5,822,491)	(6,769,095)
Underlying EBITDA	(1,336,559)	(5,095,759)
Depreciation and amortisation	(1,404,201)	(692,749)
Underlying earnings before interest and tax ('EBIT')	(2,740,760)	(5,788,508)
Net Interest expense	(1,226,061)	(823,536)
Share based payment expense	(166,011)	(52,000)
Other non-cash items	(255,957)	(7,877)
Loss before income tax expense	<u>(4,388,789)</u>	<u>(6,671,921)</u>

Underlying EBITDA and underlying EBIT are financial measures which are not prescribed by Australian Accounting Standards ('AAS') and represents the profit or loss under AAS adjusted for non-specific non-cash and significant items.

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>(1.23)</u>	<u>3.63</u>

The net tangible assets calculation does not include rights-of-use assets of \$4,549,826 (30 June 2019: \$nil) but include the lease liabilities of \$3,254,966 (30 June 2019: \$nil).

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

Not applicable.

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 the audit report contains 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 2020 is attached.

12. Signed

As authorised by the Board of Directors



Signed _____

Date: 31 August 2020

Warren Murphy
Managing Director
Sydney

Carbonxt Group Limited

ABN 59 097 247 464

Annual Report - 30 June 2020

Carbonxt Group Limited
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30 June 2020



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Directors	Matthew Driscoll - Chairman Warren Murphy - Managing Director David Mazyck - Director of Technology and Chief Executive Officer Carbonxt Inc.
Company secretaries	Rebecca Prince Laura Newell
Registered office	Level 12, Grosvenor Place 225 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 12, Grosvenor Place 225 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.

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 (Third 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

Carbonxt Group Limited
Chairman's letter
30 June 2020



Dear Shareholder,

I am pleased to present our annual report for the financial year ended 30 June 2020 ('FY20').

FY20 has been a challenging year for everyone as a result of the COVID-19 pandemic. We are no exception and our core business of powdered activated carbon (AC) supplying power stations has been affected by low underlying demand for electricity, low prices for natural gas resulting in lower use of our customers' assets, as well as many power plants bringing forward maintenance outage plans and/or reduced operating hours (and therefore used less Activated Carbon). However, it is pleasing to see the demand levels pick up as we have moved into FY21.

We have found also that closing out new sales has been more time consuming than compared to prior years. However, it was very pleasing to end the financial year with a new business line of pelletising for other major AC players. We expect to see the two new Pellet contracts signed in June contribute materially to FY21 revenue.

Operationally, the Company had many successes with our gross margin and EBITDA results showing tremendous improvement on the prior year. Pleasingly, this improvement was seen across all product lines and is testament to the unprecedented levels of technical competence resident in our staff. We expect to see further improvements in gross margins, particularly in our pellet business lines in the next financial year.

We are very excited with the launch of our new Pellet products for removal of phosphate and other nutrient contaminants from water. In July 2020, it was announced that the Company had been selected as one of the winners of the first phase of the U.S. Department of Energy's (DOE) Water Resource Recovery Prize.

Florida's long history of battling algal bloom and non-point source pollution has identified several main sources of excess phosphates in water, including runoff from agricultural sites, wastewater, industrial processes, and fertilisers. The varied nature of these sources makes effective solutions challenging to implement. Increasing concerns for the dangerous effects of high nutrient levels have led to new emerging policy and regulatory initiatives. Carbonxt's technology, HydRestor™, has proven to significantly reduce phosphorous levels while offering the potential for re-use as a soil amendment. The company has confirmed commercial pilots with three entities within Florida that are in various stages of implementation.

Carbonxt is one of the few, and perhaps only, AC pellet manufacturers in the USA. In a world of constrained supply chains and with the underlying product demand clearly growing, we are in a strong position to grow this sector of our business of the next few years. We intend to firmly establish the Company as the leading USA supplier of AC pellets.

I would like to thank our team for their hard work, strong commitment to health and safety and their never-ending passion for our business.

We look forward to continuing the positive momentum in the Company's operating performance and driving sales forward strongly in the upcoming year.

Yours sincerely

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

Matthew Driscoll
Chairman

31 August 2020
Sydney

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 2020.

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 (appointed 5 August 2019)
Warren Murphy
David Mazyck
Bruce Hancox (resigned 5 August 2019)

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 \$4,388,789 (30 June 2019: \$6,671,921).

Revenue for the year was \$15,786,160 (before other income) and \$16,603,061 (after other income) representing a decrease of 13.9% and 9.5% respectively on the prior year's revenue of \$18,325,205 (before other income) and \$18,351,215 (after other income).

Underlying EBITDA (Earnings, before interest, taxation, depreciation and amortisation, adjusted for specific items) amounted to a loss of \$1,336,559 (30 June 2019: \$5,095,759).

The Coronavirus (COVID-19) pandemic impacted the sales of activated carbon of the Group due to a decline in demand as a result of plant shutdowns for annual maintenance of the Group's utility customers, in response to lower energy demands during the US COVID-19 pandemic lockdown. Although there is a decline in revenue, there is an emerging trend towards supply chain security and more regionalised product sourcing as the Group is the only activated carbon pellet manufacturing facility in the US.

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Underlying earnings before interest and tax ('EBIT')	(2,740,760)	(5,788,508)
Net Interest expense	(1,226,061)	(823,536)
Share based payment expense	(166,011)	(52,000)
Other non-cash items	(255,957)	(7,877)
Loss before income tax expense	<u>(4,388,789)</u>	<u>(6,671,921)</u>

Underlying EBITDA and underlying EBIT are financial measures which are not prescribed by Australian Accounting Standards ('AAS') and represents the profit or loss under AAS adjusted for non-specific non-cash and significant items.

Liquidity

During the financial year ended 30 June 2020, the Group incurred a net loss after tax of \$4,388,789 (30 June 2019: \$6,671,921) and a cash outflow from operating activities of \$2,756,365 (30 June 2019: \$6,147,871). As at 30 June 2020, the Group had net assets of \$6,821,945 (30 June 2019: \$4,956,333) and cash and cash equivalents of \$312,765 (30 June 2019: \$2,376,431).

The directors have assessed that the Group is and will remain a going concern and believe that the going concern basis of preparation of the accounts is appropriate. For further information, refer to note 2.

Significant changes in the state of affairs

Capital raising

On 7 November 2019, as part of the 2019 Institutional Placement, the Company issued 4,153,673 ordinary shares raising a total of \$1,495,322 before issue costs.

On 5 December 2019, as part of the 2019 Institutional Placement, the Company issued 6,957,438 ordinary shares raising a total of \$2,504,678 before issue costs.

On 6 December 2019, as part of the 2019 Institutional Placement, the Company issued 6,702,626 ordinary shares raising a total of \$2,412,945 before issue costs.

The 2019 Institutional Placement consisted of a total of 17,813,737 shares with an issue price of \$0.36.

Manufacturing capacity

Black Birch PAC facility located in Georgia, US	This facility continues to improve, and the Group has largely moved to major utility supply contracts from this facility. The facility has the capability to produce 10,000 tons per annum when fully operational.
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Arden Hills AC pellet plant facility located in Minnesota, US	The production cost at this facility has significantly reduced over the period and further improvements are expected.
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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

On 8 July 2020, the Group announced the successful completion of institutional placement to raise approximately \$2,000,000 from 13,000,000 ordinary shares at an issue price of \$0.16.

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. The details of the options follow:

Grant date	Expiry date	Exercise price	Number of options
13/07/2020	13/07/2023	\$0.17	800,000
13/07/2020	13/07/2023	\$0.20	800,000
13/07/2020	13/07/2023	\$0.22	800,000

No other matter or circumstance has arisen since 30 June 2020 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 leverage the competitive advantage of its non-brominated PAC, that does not cause corrosion and damage to plant equipment, and to increase its customer base in both the existing coal-fired power station market in the US, and into new overseas markets.

The Company will aggressively expand its industrial AC pellet business in vapour control. There is significant growth opportunity as we develop pellet formulas to address odour mitigation, liquid solvent recovery units, and other specific industrial uses of pellets.

Furthermore, due to concerns about tariffs and trade barriers, the Group is seeing strong demand from local US distributors that are currently relying on imports from Asia.

Finally, further optimisation of product formulas and processes at our production facilities is expected to increase gross margins across the Group and it is expected that the next financial year will result in increases in sales, gross margins and cash flow.

Environmental regulation

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

Information on directors

Name:	Matthew Driscoll (appointed 5 August 2019)
Title:	Non-Executive Chairman
Qualifications:	BA, Dip Ed, Grad.Dip.App.Fin. SF Fin, MSAA, GAICD
Experience and expertise:	Matthew has significant experience across several industries, including online technologies, financial services, fintech, property and resources. He has more than 30 years' experience in capital markets and the financial services industry and is an accomplished company director in roles across listed and private companies. He has significant experience in international business growth, mergers and acquisitions, equity and debt raisings and building strategic alliances, and remains committed to ethical, commercial and consumer-based outcomes.
Other current directorships:	NED Energy Technologies Limited (EGY), NED Blina Minerals (BDI), NED EcoSystems Ltd (ESL), NED of Unlisted public Co. Smoke Alarms Holdings.
Former directorships (last 3 years):	Chair, Powerwrap Limited (PWL) Chair, Killara Resources Limited (KRA)
Interests in shares:	657,447 ordinary shares
Interests in options:	None

Carbonxt Group Limited
Directors' report
30 June 2020



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 Infigen Energy (and its unlisted predecessor, Global Wind Partners) where he served as a director from inception until June 2009.
Other current directorships: None
Former directorships (last 3 years): None
Interests in shares: 408,562 ordinary shares
Interests in options: 1,500,000 options over ordinary shares

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 including mercury capture. 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'). He is a member of the World Coal Association and appointee to the United Nations efforts on developing a global treaty for mercury.
Other current directorships: None
Former directorships (last 3 years): None
Interests in shares: 426,062 ordinary shares
Interests in options: 1,000,000 options over ordinary shares

Name: Bruce Hancox (resigned 5 August 2019)
Title: Non-Executive Chairman
Qualifications: B.com
Experience and expertise: Bruce has had a long and distinguished career in business in New Zealand and Australia and was for many years involved with Brierley Investments Limited as a General Manager and Chairman. Since 2008 he has been a financial adviser to interests of Lang Walker and has been a director of several Australian listed public companies. Bruce is a representative of the Walker group of companies, Carbonxt's largest shareholder.
Other current directorships: Next Science Limited (ASX: NSX), Australian Industrial Minerals
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 secretaries

Rebecca Prince is Company Secretary and Chief Financial Officer to Carbonxt Group Limited. 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.

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 Masters degree in Law and Corporate Governance. She is an Associate of the Governance Institute of Australia (GIA).

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2020, and the number of meetings attended by each director were:

	Full Board Attended	Held
Matthew Driscoll	5	5
Warren Murphy	6	6
David Mazyck	6	6
Bruce Hancox	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 2020, 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 2019 Annual General Meeting ('AGM')

The Company did not receive any specific feedback on its remuneration practices at the 2019 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 (appointed 5 August 2019)
- Warren Murphy - Managing Director
- David Mazyck - Director of Technology and Chief Executive Officer Carbonxt Inc.
- Bruce Hancox - Non-Executive Chairman (resigned 5 August 2019)

- Rebecca Prince - Chief Financial Officer ('CFO')

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Bonus	Non-monetary	Super-annuation**	Long service leave	Equity-settled	Total
2020	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Director:</i>							
Matthew Driscoll**	80,000	-	-	-	-	36,469	116,469
Bruce Hancox	-	-	-	-	-	-	-
<i>Executive Directors:</i>							
Warren Murphy*	189,720	-	-	-	-	36,469	226,189
David Mazyck*	566,021	-	-	-	-	36,469	602,490
<i>Other KMP:</i>							
Rebecca Prince	302,667	-	-	-	-	18,868	321,535
	1,138,408	-	-	-	-	128,275	1,266,683

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

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled****	Total
2019	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Director:</i>							
Matthew Quinn**	50,000	-	-	4,750	-	-	54,750
Bruce Hancox	-	-	-	-	-	-	-
<i>Executive Directors:</i>							
Warren Murphy*	219,090	-	-	-	-	-	219,090
David Mazyck*	596,952	-	-	-	-	-	596,952
<i>Other KMP:</i>							
Rebecca Prince***	241,964	139,801	-	-	-	52,000	433,765
	1,108,006	139,801	-	4,750	-	52,000	1,304,557

**** The equity-settled remuneration relates to the expensing in full of the options granted to KMP in September 2018 under the Employee Option Plan. There will be no further benefit recorded in the future in respect to these options.

Carbonxt Group Limited
Directors' report
30 June 2020



Cash bonuses of \$83,881 (US\$60,000) and \$55,920 (US\$40,000) accrued were paid to Rebecca Prince during the 2019 financial year for signing the employment contract.

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2020	2019	2020	2019	2020	2019
<i>Non-Executive Directors:</i>						
Matthew Driscoll	100%	-	-	-	-	-
Matthew Quinn	-	100%	-	-	-	-
Bruce Hancox	-	-	-	-	-	-
<i>Executive Directors:</i>						
Warren Murphy	100%	100%	-	-	-	-
David Mazyck	100%	100%	-	-	-	-
<i>Other KMP:</i>						
Rebecca Prince	100%	88%	-	12%	-	-

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: On-going - 2 year minimum term
Details: Annual base salary of US\$225,000 with annual bonus up to 50% of annual salary. US\$100,000 signing bonus.

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 2020 are set out below:

Name	Date	Shares	Issue price	\$
Matthew Driscoll	29 May 2020	158,562	\$0.23	36,469
Warren Murphy	29 May 2020	158,562	\$0.23	36,469
David Mazyck	29 May 2020	158,562	\$0.23	36,469
Rebecca Prince	29 May 2020	82,033	\$0.23	18,868

Carbonxt Group Limited
Directors' report
30 June 2020



The shares were issued on 29 May 2020 in lieu of directors fees and salary payments for KMP as approved at the Extraordinary General Meeting held on 1 May 2020. The shares vest immediately and no future targets are required to be met.

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 2020.

Additional information

The earnings of the Group for the three years to 30 June 2020 are summarised below:

	2020 \$	2019 \$	2018 \$
Sales revenue	15,786,160	18,325,205	6,351,913
Net loss after tax	(4,388,789)	(6,671,921)	(7,159,859)
Net Assets	6,821,945	4,956,333	4,467,306
	2020	2019	2018
Share price at financial year end (\$)	0.19	0.33	0.40
Basic loss per share (cents per share)	(4.41)	(7.68)	(10.63)

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	Balance at the end of the year
<i>Ordinary shares</i>				
Matthew Driscoll	415,552	158,562	83,333	657,447
Warren Murphy	250,000	158,562	-	408,562
David Mazyck	267,500	158,562	-	426,062
Rebecca Prince	-	82,033	-	82,033
	933,052	557,719	83,333	1,574,104

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	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Warren Murphy	1,500,000	-	-	-	1,500,000
David Mazyck	1,000,000	-	-	-	1,000,000
Rebecca Prince	200,000	-	-	-	200,000
	2,700,000	-	-	-	2,700,000

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 and warrants at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
30 November 2017	30 November 2021	\$0.50	3,500,000
28 February 2018	30 November 2021	\$0.50	300,000
28 February 2018	30 November 2021	\$0.70	475,000
19 September 2018	30 November 2021	\$0.56	200,000
24 May 2019	24 May 2023	\$0.52	9,166,670
13 July 2020	13 July 2023	\$0.17	800,000
13 July 2020	13 July 2023	\$0.20	800,000
13 July 2020	13 July 2023	\$0.22	800,000
			<u>16,041,670</u>

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 2020 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.

Auditor

Ernst & Young continues in office in accordance with section 327 of the Corporations Act 2001.

Carbonxt Group Limited
Directors' report
30 June 2020



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

A handwritten signature in blue ink, appearing to read "Warren Murphy", written over a horizontal line.

Warren Murphy
Managing Director

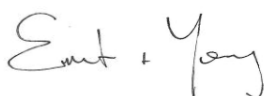
31 August 2020
Sydney

Auditor's Independence Declaration to the Directors of Carbonxt Group Limited and its controlled entities

As lead auditor for the audit of Carbonxt Group Limited and its subsidiaries for the financial year ended 30 June 2020, 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; and
- b) no contraventions of 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 Jarrett
Partner
31 August 2020

Carbonxt Group Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2020



	Note	Consolidated 2020 \$	2019 \$
Revenue			
Sales revenue	5	15,786,160	18,325,205
Cost of goods sold		(10,741,845)	(14,811,310)
Gross margin		5,044,315	3,513,895
Other income	6	816,901	26,010
Expenses			
Shipping and distribution costs		(1,375,284)	(1,866,569)
Employee benefits expense		(2,891,302)	(2,974,129)
Share-based payment expense	35	(166,011)	(52,000)
Depreciation and amortisation expense	7	(1,404,201)	(692,749)
Selling and marketing expenses		(799,405)	(1,082,401)
General and administrative expenses		(1,322,581)	(1,183,013)
Other expenses	7	(1,065,160)	(1,537,429)
Operating loss		(3,162,728)	(5,848,385)
Interest income		11,688	31,335
Finance costs	7	(1,237,749)	(854,871)
Loss before income tax expense		(4,388,789)	(6,671,921)
Income tax expense	8	-	-
Loss after income tax expense for the year attributable to the owners of Carbonxt Group Limited		(4,388,789)	(6,671,921)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		63,570	305,300
Other comprehensive income for the year, net of tax		63,570	305,300
Total comprehensive loss for the year attributable to the owners of Carbonxt Group Limited		<u>(4,325,219)</u>	<u>(6,366,621)</u>
		Cents	Cents
Basic loss per share	34	(4.41)	(7.68)
Diluted loss per share	34	(4.41)	(7.68)

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 2020



	Note	Consolidated 2020 \$	2019 \$
Assets			
Current assets			
Cash and cash equivalents	9	312,765	2,376,431
Trade and other receivables	10	1,247,605	1,697,948
Inventories	11	3,153,094	2,067,828
Other	12	435,651	646,512
Total current assets		<u>5,149,115</u>	<u>6,788,719</u>
Non-current assets			
Plant and equipment	13	6,512,104	10,604,763
Right-of-use assets	14	4,549,826	-
Intangibles	15	3,594,149	1,729,622
Total non-current assets		<u>14,656,079</u>	<u>12,334,385</u>
Total assets		<u>19,805,194</u>	<u>19,123,104</u>
Liabilities			
Current liabilities			
Trade and other payables	16	3,142,123	3,464,406
Borrowings	17	88,333	1,026,413
Lease liabilities	18	1,055,700	-
Royalty payable	19	62,158	65,480
Employee benefits		124,374	173,989
Total current liabilities		<u>4,472,688</u>	<u>4,730,288</u>
Non-current liabilities			
Borrowings	20	4,491,545	7,516,055
Lease liabilities	21	2,199,266	-
Royalty payable	22	1,819,750	1,920,428
Total non-current liabilities		<u>8,510,561</u>	<u>9,436,483</u>
Total liabilities		<u>12,983,249</u>	<u>14,166,771</u>
Net assets		<u>6,821,945</u>	<u>4,956,333</u>
Equity			
Issued capital	23	69,391,218	63,200,387
Reserves	24	15,615,468	15,551,898
Accumulated losses		<u>(78,184,741)</u>	<u>(73,795,952)</u>
Total equity		<u>6,821,945</u>	<u>4,956,333</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 2020



Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2018	57,532,631	14,058,706	(67,124,031)	4,467,306
Loss after income tax expense for the year	-	-	(6,671,921)	(6,671,921)
Other comprehensive income for the year, net of tax	-	305,300	-	305,300
Total comprehensive income/(loss) for the year	-	305,300	(6,671,921)	(6,366,621)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 23)	5,667,756	-	-	5,667,756
Share-based payments (note 35)	-	52,000	-	52,000
Warrants issued (note 23)	-	1,135,892	-	1,135,892
Balance at 30 June 2019	<u>63,200,387</u>	<u>15,551,898</u>	<u>(73,795,952)</u>	<u>4,956,333</u>
Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2019	63,200,387	15,551,898	(73,795,952)	4,956,333
Loss after income tax expense for the year	-	-	(4,388,789)	(4,388,789)
Other comprehensive income for the year, net of tax	-	63,570	-	63,570
Total comprehensive income/(loss) for the year	-	63,570	(4,388,789)	(4,325,219)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 23)	6,024,820	-	-	6,024,820
Shares issued to directors and employees (note 23)	166,011	-	-	166,011
Balance at 30 June 2020	<u>69,391,218</u>	<u>15,615,468</u>	<u>(78,184,741)</u>	<u>6,821,945</u>

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 2020



	Note	Consolidated 2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		16,248,191	17,409,772
Payments to suppliers and employees (inclusive of GST)		(19,220,918)	(23,023,456)
		(2,972,727)	(5,613,684)
Interest received		11,688	31,335
Receipts of government grants	6	687,668	-
Interest and other finance costs paid		(482,994)	(565,522)
Net cash used in operating activities	33	(2,756,365)	(6,147,871)
Cash flows from investing activities			
Payments for plant and equipment	13	(1,813,355)	(4,121,209)
Payments for intangible assets	15	(1,453,925)	(299,608)
Proceeds from disposal of property, plant and equipment		81,905	-
Net cash used in investing activities		(3,185,375)	(4,420,817)
Cash flows from financing activities			
Proceeds from issue of shares	23	6,412,945	6,071,780
Proceeds from loan payable		15,000	5,423,000
Repayment of loan payable		(199,998)	(2,500,000)
Repayment of royalty payable		(213,662)	(128,838)
Share issue transaction costs	23	(388,125)	(404,024)
Repayment of finance leases		-	(869,198)
Repayment of lease liabilities	33	(1,322,438)	-
Interest on lease liabilities	33	(348,942)	-
Net cash from financing activities		3,954,780	7,592,720
Net decrease in cash and cash equivalents		(1,986,960)	(2,975,968)
Cash and cash equivalents at the beginning of the financial year		2,376,431	5,166,545
Effects of exchange rate changes on cash and cash equivalents		(76,706)	185,854
Cash and cash equivalents at the end of the financial year	9	<u>312,765</u>	<u>2,376,431</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 2020. 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.

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

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 16 Leases

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Note 2. Significant accounting policies (continued)

Impact of adoption of AASB 16

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. There is no impact on opening accumulated losses as at 1 July 2019 as the right-of-use assets equal the lease liabilities as presented below:

	1 July 2019 \$
Operating lease commitments as at 1 July 2019 (AASB 117)*	1,284,285
Operating lease commitments discount based on the weighted average incremental borrowing rate of 9.5% (AASB 16)	(176,021)
Payments in optional extension periods not recognised at 30 June 2019	210,129
Finance lease commitments as at 1 July 2019 (AASB 117)	4,127,528
Lease liability recognised on adoption 1 July 2019	<u>5,445,921</u>
Lease liabilities - current (AASB 16)	(1,265,270)
Lease liabilities - non-current (AASB 16)	(4,180,651)
Lease liability recognised on adoption 1 July 2019	<u>(5,445,921)</u>
Increase in opening accumulated losses as at 1 July 2019	<u><u>-</u></u>

* Being the operating lease commitments of USD900,438 as disclosed in the 30 June 2019 annual report, converted into AUD.

Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with similar characteristics;
- accounting for leases which end within 12 months of the date of initial application as short term leases;
- excluding initial direct costs from the measurement of the right-of-use asset; and
- using hindsight in determining the lease term when the contract contains options to extend or terminate the lease.

Amendment to AASB 16 Covid-19-Related Rent Concessions

The Group has early adopted the amendment to AASB 16 from 1 July 2019. The amendment provides a practical expedient for lessees to account for COVID-19-related rent concessions that: result in lease payments that are substantially the same as, or less than, the consideration for the lease immediately prior to the change; where any reduction in the lease payments affects only payments originally due on or before 30 June 2021; and where there is no substantive change to other terms and conditions of the lease. The practical expedient allows an entity not to assess rent concessions meeting the criteria as a lease modification. As a result, to the extent that lease concessions represent a forgiveness or waiver of lease payments, such concessions are treated as variable lease payments recognised in profit or loss with a corresponding adjustment to the lease liability. To the extent that the lease concession in substance represents a delay in lease repayments such that lease consideration is not changed, the lease liability is not extinguished. Interest continues to accrue for that period. The Group has applied the practical expedient to all rent concessions that meet the above mentioned criteria and there are no impact on the Group on the adoption of this amendments.

Interpretation 23 Uncertainty over Income Tax

The Group has adopted Interpretation 23 from 1 July 2019. The interpretation clarifies how to apply the recognition and measurement requirements of AASB 112 'Income Taxes' in circumstances where uncertain tax treatments exists. The interpretation requires: the Group to determine whether each uncertain tax treatment should be treated separately or together, based on which approach better predicts the resolution of the uncertainty; the Group to consider whether it is probable that a taxation authority will accept an uncertain tax treatment; and if the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates, measuring the tax uncertainty based on either the most likely amount or the expected value. In making the assessment it is assumed that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. Management has considered all facts and circumstances as it relates to the Group and believe there is no material uncertainty over the availability of the tax losses and other deductions to the Group.

Note 2. Significant accounting policies (continued)

Going Concern

During the financial year ended 30 June 2020, the Group incurred a net loss after tax of \$4,388,789 (30 June 2019: \$6,671,921) and a cash outflow from operating activities of \$2,756,365 (30 June 2019: \$6,147,871). As at 30 June 2020, the Group had net assets of \$6,821,945 (30 June 2019: \$4,956,333) and cash and cash equivalents of \$312,765 (30 June 2019: \$2,376,431).

While there have been significant improvements in the operating performance of the business, the net loss after tax indicates a material uncertainty in relation to going concern. The directors have assessed that the Group is and will remain a going concern and believe that the going concern basis of preparation of the accounts is appropriate, based upon the following:

- The Group continues to significantly improve the operating performance of the business;
- The Group can defer certain capital expenditures;
- The Group continues to proactively manage the cash flow requirements to ensure that funds are available when required; and
- The Group has a history of obtaining funding as required through various sources, including debt and equity issues, such as the recent capital raising of \$2,000,000 on 8 July 2020.

Should the Group not achieve improvements to operating performance, there may be uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability or classification of the 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.

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 except for royalty payable, which is measured at fair value through profit or loss.

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 36.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Carbonxt Group Limited as at 30 June 2020 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.

Note 2. Significant accounting policies (continued)

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.

Where 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 Australian dollars 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.

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.

Note 2. Significant accounting policies (continued)

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

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.

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.

Note 2. Significant accounting policies (continued)

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

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.

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.

Leases (applicable up to 30 June 2019)

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset

Note 2. Significant accounting policies (continued)

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Right-of-use assets (applicable from 1 July 2019)

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.

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.

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.

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 4 to 6 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.

Note 2. Significant accounting policies (continued)

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

These amounts 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.

Lease liabilities (applicable from 1 July 2019)

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.

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.

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.

Note 2. Significant accounting policies (continued)

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.

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 of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 2. Significant accounting policies (continued)

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.

Comparative information

Comparatives have been restated, where appropriate, to conform to changes in presentation in the current year and to enhance comparability. There was no net effect on the net asset position.

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 2020. 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.

Conceptual Framework for Financial Reporting (Conceptual Framework)

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the Group has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the Group may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the Group's 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.

COVID-19 pandemic

Judgement has been exercised in considering the impacts that the COVID-19 pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the COVID-19 pandemic.

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 liability

The fair value of the liabilities classified as level 3 is determined by the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair value. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment of non-financial assets

The Group assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the Group 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 fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and tax losses only if the group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses or to the extent that they offset deferred tax liabilities.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Group estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

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.

Major customers

During the year ended 30 June 2020 approximately 45% (2019: 50%) of the Group's external revenue was derived from sales to one customer.

Geographical information

	Sales to external customers		Geographical non-current assets	
	2020	2019	2020	2019
	\$	\$	\$	\$
Australia	-	-	768,123	858,482
United States of America	15,676,777	18,325,205	13,289,177	11,475,903
	<u>15,676,777</u>	<u>18,325,205</u>	<u>14,057,300</u>	<u>12,334,385</u>

Note 4. Operating segments (continued)

The geographical non-current assets above are exclusive of, where applicable, financial instruments and deferred tax assets.

Note 5. Revenue

Disaggregation of revenue

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

	Consolidated	
	2020	2019
	\$	\$
<i>Major product lines</i>		
Sale of activated carbon	15,604,452	18,052,183
Consultancy fees	181,708	273,022
	<u>15,786,160</u>	<u>18,325,205</u>
<i>Geographical regions</i>		
United States of America	<u>15,786,160</u>	<u>18,325,205</u>
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	<u>15,786,160</u>	<u>18,325,205</u>

Note 6. Other income

	Consolidated	
	2020	2019
	\$	\$
Net foreign exchange gain/(loss)	25,233	(4,816)
Fair value gain on license royalty	104,000	30,826
Government grants	687,668	-
Other income	<u>816,901</u>	<u>26,010</u>

During the COVID-19 pandemic, the Group has received support payments of \$687,668 (US\$461,700) from the US Government which are used for eligible expenses including payroll, rent and utilities. These have been recognised as government grants in the financial statements and recorded as other income over the periods in which the eligible expenses are recognised. Repayment is not required if certain requirements are met, including disbursing the payment within the 8-week period from receipt, no ineligible reductions in full-time headcount, and using at least 60% of the payment for payroll costs. All requirements were met and therefore the Group does not expect repayment to be required

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

Note 7. Expenses

	Consolidated	
	2020	2019
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	560,342	320,519
Plant and equipment under lease	-	240,921
Plant right-of-use assets	631,853	-
Equipment right-of-use assets	53,354	-
Total depreciation	<u>1,245,549</u>	<u>561,440</u>
<i>Amortisation</i>		
Engineering Performance Solutions ('EPS') patents	90,360	90,360
Other patents	68,292	40,949
Total amortisation	<u>158,652</u>	<u>131,309</u>
Total depreciation and amortisation	<u>1,404,201</u>	<u>692,749</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	11,572	2,052
Interest and finance charges paid/payable on lease liabilities	351,851	282,994
Convertible note interest	-	515,325
Loan payable interest	590,353	54,500
Warrant cost	283,973	-
Finance costs expensed	<u>1,237,749</u>	<u>854,871</u>
<i>Other expenses</i>		
Insurance costs	703,121	539,665
Legal costs	23,978	123,741
Other expenses	21,524	83,937
Technical feasibility expense	246,827	494,850
Operating lease payments	-	137,165
Other occupancy expense	58,673	62,696
Loss on disposal of plant and equipment	11,037	95,375
Total other expenses	<u>1,065,160</u>	<u>1,537,429</u>

Note 8. Income tax

	Consolidated	
	2020	2019
	\$	\$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	<u>(4,388,789)</u>	<u>(6,671,921)</u>
Tax at the statutory tax rate of 27.5%	<u>(1,206,917)</u>	<u>(1,834,778)</u>
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Deferred tax assets not recognised	<u>1,206,917</u>	<u>1,834,778</u>
Income tax expense	<u>-</u>	<u>-</u>

Note 8. Income tax (continued)

	Consolidated	
	2020	2019
	\$	\$
<i>Tax losses not recognised</i>		
Unused Australian tax losses for which no deferred tax asset has been recognised	22,089,782	20,156,153
Potential tax benefit @ 27.5%	6,074,690	5,542,942
Unused United States tax losses for which no deferred tax asset has been recognised	46,748,129	44,292,968
Potential tax benefit @ 21.0%	9,817,107	9,301,523

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.

The Group also has capital losses of approximately \$3,000,000.

Note 9. Current assets - cash and cash equivalents

	Consolidated	
	2020	2019
	\$	\$
Cash on hand	20	20
Cash at bank	246,560	2,311,642
Cash on deposit	66,185	64,769
	<u>312,765</u>	<u>2,376,431</u>

Note 10. Current assets - trade and other receivables

	Consolidated	
	2020	2019
	\$	\$
Trade receivables	<u>1,247,605</u>	<u>1,697,948</u>

Allowance for expected credit losses

The Group has recognised a loss of \$nil (2019: \$nil) in profit or loss in respect of impairment of receivables for the year ended 30 June 2020.

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

The Group's trade receivables were not affected by Coronavirus (COVID-19) pandemic, thus no revisions on the calculation of expected credit losses has been applied as at 30 June 2020.

Note 11. Current assets - inventories

	Consolidated	
	2020	2019
	\$	\$
Raw materials - at cost	1,694,247	1,758,932
Work in progress - at cost	370,989	-
Activated carbon finished goods - at cost	1,087,858	308,896
	<u>3,153,094</u>	<u>2,067,828</u>

Note 12. Current assets - other

	Consolidated	
	2020	2019
	\$	\$
Prepayments	402,089	632,619
GST receivable	33,562	13,893
	<u>435,651</u>	<u>646,512</u>

Note 13. Non-current assets - plant and equipment

	Consolidated	
	2020	2019
	\$	\$
Plant and equipment - at cost	7,559,161	4,688,571
Less: Accumulated depreciation	(1,568,446)	(996,289)
	<u>5,990,715</u>	<u>3,692,282</u>
Plant and equipment under lease	-	4,992,561
Less: Accumulated depreciation	-	(253,748)
	<u>-</u>	<u>4,738,813</u>
Construction in progress	521,389	2,173,668
	<u>6,512,104</u>	<u>10,604,763</u>

Note 13. Non-current assets - plant and equipment (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 and equipment \$	Plant and equipment under lease \$	Construction in progress \$	Total \$
Balance at 1 July 2018	2,058,909	-	-	2,058,909
Additions	1,921,410	4,992,561	2,199,799	9,113,770
Disposals	(71,148)	-	(26,131)	(97,279)
Exchange differences	103,630	(12,827)	-	90,803
Depreciation expense	(320,519)	(240,921)	-	(561,440)
Balance at 30 June 2019	3,692,282	4,738,813	2,173,668	10,604,763
Additions	-	-	1,813,355	1,813,355
Disposals	(92,942)	-	-	(92,942)
Exchange differences	11,824	-	58,006	69,830
Transfer to intangibles	-	-	(583,747)	(583,747)
Transfers to right-of-use assets	-	(4,738,813)	-	(4,738,813)
Transfers in/(out)	2,939,893	-	(2,939,893)	-
Depreciation expense	(560,342)	-	-	(560,342)
Balance at 30 June 2020	<u>5,990,715</u>	<u>-</u>	<u>521,389</u>	<u>6,512,104</u>

Note 14. Non-current assets - right-of-use assets

	Consolidated 2020 \$	2019 \$
Plant - right-of-use	5,041,792	-
Less: Accumulated depreciation	(571,240)	-
	<u>4,470,552</u>	<u>-</u>
Equipment - right-of-use	131,470	-
Less: Accumulated depreciation	(52,196)	-
	<u>79,274</u>	<u>-</u>
	<u>4,549,826</u>	<u>-</u>

The Group leases a building for its offices under a non-cancellable lease, expiring 21 March 2021. 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 2020, variable lease payments amounted to \$309,978. 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 14. Non-current assets - 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 2019 (on adoption of AASB 16 Leases)	1,318,393	-	1,318,393
Transfers from plant and equipment (note 13)	4,610,155	128,658	4,738,813
Balance at 1 July 2019 (restated)	5,928,548	128,658	6,057,206
Lease modifications	(1,051,599)	-	(1,051,599)
Exchange differences	225,456	3,970	229,426
Depreciation expense	(631,853)	(53,354)	(685,207)
Balance at 30 June 2020	<u>4,470,552</u>	<u>79,274</u>	<u>4,549,826</u>

Note 15. Non-current assets - intangibles

	Consolidated 2020 \$	2019 \$
Engineering Performance Solutions ('EPS') patents - at cost	1,445,822	1,445,822
Less: Accumulated amortisation	(677,700)	(587,340)
	<u>768,122</u>	<u>858,482</u>
Other patents and development - at cost	3,403,140	1,387,047
Less: Accumulated amortisation	(577,113)	(515,907)
	<u>2,826,027</u>	<u>871,140</u>
	<u>3,594,149</u>	<u>1,729,622</u>

Reconciliations

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

Consolidated	EPS patents \$	Other patents and development cost \$	Total \$
Balance at 1 July 2018	948,842	581,934	1,530,776
Additions	-	299,608	299,608
Exchange differences	-	30,547	30,547
Amortisation expense	(90,360)	(40,949)	(131,309)
Balance at 30 June 2019	858,482	871,140	1,729,622
Additions	-	1,453,925	1,453,925
Exchange differences	-	(14,493)	(14,493)
Transfers in from construction in progress	-	583,747	583,747
Amortisation expense	(90,360)	(68,292)	(158,652)
Balance at 30 June 2020	<u>768,122</u>	<u>2,826,027</u>	<u>3,594,149</u>

Note 15. Non-current assets - intangibles (continued)

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 fair value of this liability is recognised in the statement of financial position. Refer to note 22.

Note 16. Current liabilities - trade and other payables

	Consolidated	
	2020	2019
	\$	\$
Trade payables	2,441,953	2,954,888
Accrued expenses	671,902	430,540
Other payables	28,268	78,978
	<u>3,142,123</u>	<u>3,464,406</u>

Refer to note 26 for further information on financial instruments.

Note 17. Current liabilities - borrowings

	Consolidated	
	2020	2019
	\$	\$
Loans	88,333	73,333
Finance lease liability (under AASB 117 prior period)	-	953,080
	<u>88,333</u>	<u>1,026,413</u>

Refer to note 26 for further information on financial instruments.

Note 18. Current liabilities - lease liabilities

	Consolidated	
	2020	2019
	\$	\$
Lease liability (under AASB 16 for the current period)	<u>1,055,700</u>	<u>-</u>

Refer to note 26 for further information on financial instruments.

Note 19. Current liabilities - royalty payable

	Consolidated	
	2020	2019
	\$	\$
Royalty payable	<u>62,158</u>	<u>65,480</u>

The liability above is valued using a discounted cash flow methodology. See note 22 for more information.

Note 20. Non-current liabilities - borrowings

	Consolidated	
	2020	2019
	\$	\$
Loan payable	4,491,545	4,341,607
Finance lease liability (under AASB 117 for the prior period)	-	3,174,448
	<u>4,491,545</u>	<u>7,516,055</u>

Refer to note 26 for further information on financial instruments.

Loan payable

On 24 May 2019, the Group entered into a new finance facility of \$5,500,000. This represents redemption of the existing \$2,500,000 convertible note facility and \$3,000,000 additional funds. 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. A Deed of Compromise was signed with the lender on 31 December 2019 reflecting an anti-dilution adjustment of the warrant exercise price to 52 cents per share. Transaction costs of \$199,998 was capitalised against the loan.

Note 21. Non-current liabilities - lease liabilities

	Consolidated	
	2020	2019
	\$	\$
Lease liability (under AASB 16 for the current period)	<u>2,199,266</u>	<u>-</u>

Refer to note 26 for further information on financial instruments.

Note 22. Non-current liabilities - royalty payable

	Consolidated	
	2020	2019
	\$	\$
Royalty payable	<u>1,819,750</u>	<u>1,920,428</u>

The Group has an exclusive licence from EPS to use its patented technology. 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.
- Sale price above US\$3,000 per ton - 4% of revenue.

The liability above is valued using a discounted cash flow methodology. The exclusive licence to use the patent has been recognised as an intangible asset, refer to note 15.

Note 23. Equity - issued capital

	2020	2019	Consolidated	
	Shares	Shares	2020	2019
			\$	\$
Ordinary shares - fully paid	<u>107,694,950</u>	<u>88,802,285</u>	<u>69,391,218</u>	<u>63,200,387</u>

Note 23. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2018	73,622,836		57,532,631
Shares placement	22 October 2018	7,500,000	\$0.40	3,000,000
Share rights issue	7 November 2018	7,679,449	\$0.40	3,071,780
Issue costs		-	\$0.00	(404,024)
Balance	30 June 2019	88,802,285		63,200,387
Shares placement**	7 November 2019	4,153,673	\$0.36	1,495,322
Shares placement**	5 December 2019	6,957,438	\$0.36	2,504,678
Share purchase plan**	6 December 2019	6,702,626	\$0.36	2,412,945
Shares placement*	30 December 2019	357,143	\$0.00	-
Shares issued to directors in lieu of fees***	6 June 2020	475,686	\$0.23	109,407
Shares issued to employees in lieu of compensation***	6 June 2020	246,099	\$0.23	56,604
Issue costs		-	\$0.00	(388,125)
Balance	30 June 2020	<u>107,694,950</u>		<u>69,391,218</u>

* On 30 December 2019, the Group issued 357,143 new fully paid ordinary shares to make a correction to the Group's share issue allocation relating to a pre IPO capital raise in 2017. The share issue price for the capital raise was \$0.56 and consideration for the 357,143 shares had been received in full by the Company at that time and was recognised in equity. The related shares have therefore been disclosed above as issued during the period for nil consideration.

** Total value of shares issued was \$6,412,945 and \$6,024,820 net of transaction costs.

*** Total value of shares issued to directors and employees was \$166,011.

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.

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 2019 Annual Report.

Note 24. Equity - reserves

	Consolidated	
	2020	2019
	\$	\$
Financial liability reserve	8,853,868	8,853,868
Foreign currency translation reserve	656,694	593,124
Share-based payments reserve	5,541,775	5,541,775
Convertible note equity reserve	563,131	563,131
	<u>15,615,468</u>	<u>15,551,898</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.

Movements in reserves

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

	Financial liability reserve \$	Foreign currency translation reserve \$	Share-based payments reserve \$	Convertible note equity reserve \$	Total \$
Consolidated					
Balance at 1 July 2018	8,853,868	287,824	4,353,883	563,131	14,058,706
Foreign currency translation	-	305,300	-	-	305,300
Share based payment expense	-	-	52,000	-	52,000
Warrants issued	-	-	1,135,892	-	1,135,892
Balance at 30 June 2019	8,853,868	593,124	5,541,775	563,131	15,551,898
Foreign currency translation	-	63,570	-	-	63,570
Balance at 30 June 2020	<u>8,853,868</u>	<u>656,694</u>	<u>5,541,775</u>	<u>563,131</u>	<u>15,615,468</u>

Note 25. Equity - dividends

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

Note 26. 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.

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

	Assets	
	2020	2019
Consolidated	\$	\$
US dollars	209,996	735,848

The Group had assets denominated in US dollars of \$209,996 as at 30 June 2020 (2019: \$735,848). Based on this exposure, had the US dollar weakened by 10%/strengthened by 10% (2019: 10%/strengthened by 10%) against these foreign currencies with all other variables held constant, the Group's profit before tax for the year and equity would have been \$21,000 lower/\$21,000 higher (2019: \$73,585 lower/\$73,585 higher). The percentage change is the expected overall volatility of the US dollar, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange gain for the year ended 2020 was \$25,233 (2019: loss of \$4,816).

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.

Note 26. Financial instruments (continued)

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

	2020		2019	
	Weighted average interest rate %	Balance \$	Weighted average interest rate %	Balance \$
Consolidated				
Cash at bank	0.52%	246,560	0.68%	2,311,642
Cash on deposit	0.10%	66,185	0.10%	64,769
Net exposure to cash flow interest rate risk		<u>312,745</u>		<u>2,376,411</u>

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

Consolidated - 2020	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>1,564</u>	<u>1,564</u>	(50)	<u>(1,564)</u>	<u>(1,564)</u>

Consolidated - 2019	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>11,882</u>	<u>11,882</u>	(50)	<u>(11,882)</u>	<u>(11,882)</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.

Note 26. 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 - 2020	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	-	2,441,953	-	-	-	2,441,953
Other payables	-	28,268	-	-	-	28,268
Other loans	-	88,333	-	-	-	88,333
Royalty payable	-	62,158	112,509	757,512	949,729	1,881,908
<i>Interest-bearing - fixed rate</i>						
Loan payable	9.50%	-	-	5,500,000	-	5,500,000
Loan Payable - Interest	-	522,500	522,500	468,103	-	1,513,103
Lease liability*	7.17%	1,055,700	984,966	1,214,300	-	3,254,966
Lease Liability - Interest	-	199,748	126,893	59,936	-	386,577
Total non-derivatives		4,398,660	1,746,868	7,999,851	949,729	15,095,108

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

Consolidated - 2019	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	-	2,954,888	-	-	-	2,954,888
Other payables	-	78,978	-	-	-	78,978
Other loans	-	73,333	-	-	-	73,333
Royalty payable	-	65,480	107,084	699,470	1,113,874	1,985,908
<i>Interest-bearing - fixed rate</i>						
Loan payable	9.50%	-	-	5,500,000	-	5,500,000
Loan Payable - Interest	-	522,500	522,500	990,603	-	2,035,603
Lease liability*	6.07%	953,080	3,174,448	-	-	4,127,528
Lease Liability - Interest	-	224,012	153,013	148,942	-	525,967
Total non-derivatives		4,872,271	3,957,045	7,339,015	1,113,874	17,282,205

* Lease liability consists of property leases of 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 27. Fair value measurement

Fair value hierarchy

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. 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 following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

	Level 1 \$	Level 2 \$	Level 3 \$
Consolidated - 2020			
<i>Liabilities</i>			
Royalty payable	-	-	1,881,908
Total liabilities	-	-	1,881,908
	Level 1 \$	Level 2 \$	Level 3 \$
Consolidated - 2019			
<i>Liabilities</i>			
Royalty payable	-	-	1,985,908
Total liabilities	-	-	1,985,908

There were no transfers between levels during the financial year.

Valuation techniques for fair value measurements categorised within level 2 and level 3

Royalties: Royalties payable are valued using a probability weighted discounted cash flow methodology.

Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

Consolidated	Royalty \$
Balance at 1 July 2018	2,016,734
Loss recognised in profit or loss	98,012
Repayments	(128,838)
Balance at 30 June 2019	1,985,908
Loss recognised in profit or loss	109,662
Repayments	(213,662)
Balance at 30 June 2020	1,881,908

Note 27. Fair value measurement (continued)

The level 3 assets and liabilities unobservable inputs and sensitivity are as follows:

Description	Unobservable inputs	Sensitivity
Royalty	Sales price per ton: \$1,000 - \$3,000 per tonne (2019: \$1,000 - \$3,000 per tonne) Sales tons: 3,000 - 20,000 tons p.a. (2019: 3,000 - 20,000 tons p.a.) US Discount rate: 0.51% (2019: 1.91%)	Significant increases/(decreases) in the sales price per ton would result in higher/(lower) fair value of the royalty payable. Significant increases/(decreases) in the tons sold would result in higher/(lower) fair value of the royalty payable. Significant increases/(decreases) in the discount rate would result in lower (higher) fair value of the

Note 28. 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	
	2020	2019
	\$	\$
<i>Audit services - Ernst & Young</i>		
Audit or review of the financial statements	175,000	169,050

Note 29. Contingent liabilities

The Group had no contingent liabilities at 30 June 2020 and 30 June 2019.

Note 30. Related party transactions

Parent entity

Carbonxt Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 32.

Key management personnel

Disclosures relating to key management personnel are set out in note 31 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 Directors 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.

Note 30. Related party transactions (continued)

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated	
	2020	2019
	\$	\$
Current borrowings:		
Loan from director	15,000	-

Terms and conditions

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

Note 31. 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	
	2020	2019
	\$	\$
Short-term employee benefits	1,138,408	1,247,807
Post-employment benefits	-	4,750
Share-based payments	128,275	52,000
	<u>1,266,683</u>	<u>1,304,557</u>

Note 32. 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	
		2020	2019
		%	%
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 33. Cash flow information

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

	Consolidated	
	2020	2019
	\$	\$
Loss after income tax expense for the year	(4,388,789)	(6,671,921)
Adjustments for:		
Depreciation and amortisation	1,404,201	692,749
Net loss on disposal of property, plant and equipment	11,037	95,375
Share-based payments	166,011	52,000
Items classified as financing activities	674,943	379,484
Other non-cash items	255,957	7,877
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	450,343	(910,617)
Increase in inventories	(1,085,266)	(1,287,631)
Increase in other current assets	210,861	(305,073)
Increase/(decrease) in trade and other payables	(406,048)	1,692,066
Increase/(decrease) in employee benefits	(49,615)	107,820
Net cash used in operating activities	<u>(2,756,365)</u>	<u>(6,147,871)</u>

Non-cash investing and financing activities

	Consolidated	
	2020	2019
	\$	\$
Acquisition of plant and equipment by means of leases	-	4,992,561
Shares issued in lieu of directors fees and salaries	166,011	-
	<u>166,011</u>	<u>4,992,561</u>

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Note 33. Cash flow information (continued)

Changes in liabilities arising from financing activities

Consolidated	Loan payable \$	Convertible notes \$	Royalty payable \$	Lease liability \$	Other loan \$	Total \$
Balance at 1 July 2018	-	2,269,315	2,016,734	-	73,333	4,359,382
Net cash from/(used in) financing activities	5,423,000	(2,500,000)	(128,838)	(869,198)	-	1,924,964
Interest expense	54,500	-	-	4,165	-	58,665
Acquisition of plant and equipment by means of leases	-	-	-	4,992,561	-	4,992,561
Other changes	(1,135,893)	230,685	98,012	-	-	(807,196)
Balance at 30 June 2019	4,341,607	-	1,985,908	4,127,528	73,333	10,528,376
Net cash from/(used in) financing activities	(199,998)	-	(213,662)	(1,671,830)	15,000	(2,070,490)
Recognized on Adoption of AASB 16 Leases	-	-	-	1,318,393	-	1,318,393
Interest expense	-	-	-	348,942	-	348,942
Other changes	349,936	-	109,662	(868,067)	-	(408,469)
Balance at 30 June 2020	<u>4,491,545</u>	<u>-</u>	<u>1,881,908</u>	<u>3,254,966</u>	<u>88,333</u>	<u>9,716,752</u>

Note 34. Earnings per share

	Consolidated 2020 \$	Consolidated 2019 \$
Loss after income tax attributable to the owners of Carbonxt Group Limited	<u>(4,388,789)</u>	<u>(6,671,921)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>99,502,914</u>	<u>86,918,297</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>99,502,914</u>	<u>86,918,297</u>
	Cents	Cents
Basic loss per share	(4.41)	(7.68)
Diluted loss per share	(4.41)	(7.68)

13,641,670 (2019: 14,141,670) options were excluded from the weighted average number of ordinary shares used in calculating diluted earnings per share as they were anti-dilutive.

Note 35. 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.

3,500,000 unlisted options were granted in November 2017 to participating directors following shareholder approval at the AGM and vested immediately.

300,000 and 475,000 unlisted options were granted in February 2018 pursuant to the EOP following shareholder approval at the AGM. The options vested on 28 February 2020 and expire on 30 November 2021.

Note 35. Share-based payments (continued)

On 29 May 2020 the Company issued shares to directors and employees in lieu of directors fees and salaries, as approved at the Extraordinary General Meeting held on 1 May 2020. The shares vest immediately and no future targets are required to be met. Details of the share-based payments follow:

	Grant date	Number of shares	Issued price at grant date	Fair value at grant date	Total expense \$
Shares issued to directors	29/05/2020	475,686	\$0.19	\$0.23	109,408
Shares issued to employees	29/05/2020	246,099	\$0.19	\$0.23	56,602

The share-based payment expense in relation to options and warrants for 2020 is \$nil (2019: \$52,000). The share-based payments in relation the shares issued in lieu of directors fees and salaries is \$166,011.

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

2020

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
08/06/2018	08/06/2020	\$0.60	500,000	-	-	(500,000)	-
28/02/2018	30/11/2021	\$0.50	300,000	-	-	-	300,000
28/02/2018	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	\$0.52	9,166,670	-	-	-	9,166,670
			14,141,670	-	-	(500,000)	13,641,670
Weighted average exercise price			\$0.58	\$0.00	\$0.00	\$0.60	\$0.52

* A Deed of Compromise was signed with the option holder on 31 December 2019 reflecting an anti-dilution adjustment of the exercise price from 60 cents per share to to 52 cents per share.

2019

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
08/06/2018	08/06/2020	\$0.60	500,000	-	-	-	500,000
28/02/2018	30/11/2021	\$0.50	300,000	-	-	-	300,000
28/02/2018	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	\$0.60	-	9,166,670	-	-	9,166,670
			4,775,000	9,366,670	-	-	14,141,670
Weighted average exercise price			\$0.53	\$0.00	\$0.00	\$0.00	\$0.58

The weighted average remaining contractual life of options and warrants outstanding at the end of the financial year was 2.41 years (2019: 3.33 years).

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

There are no options and warrants granted during the current financial year.

Note 36. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2020	2019
	\$	\$
Loss after income tax	(8,486,738)	(11,504,380)
Total comprehensive loss	(8,486,738)	(11,504,380)

Statement of financial position

	Parent	
	2020	2019
	\$	\$
Total current assets	40,224	2,054,766
Total assets	808,347	2,913,248
Total current liabilities	473,057	331,314
Total liabilities	6,784,352	6,593,349
Equity		
Issued capital	68,853,666	62,662,835
Financial liability reserve	8,853,868	8,853,868
Share-based payments reserve	5,541,775	5,541,775
Convertible note equity reserve	563,131	563,131
Accumulated losses	(89,788,445)	(81,301,710)
Total deficiency in equity	(5,976,005)	(3,680,101)

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 2020 and 30 June 2019.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

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 37. Events after the reporting period

On 8 July 2020, the Group announced the successful completion of institutional placement to raise approximately \$2,000,000 from 13,000,000 ordinary shares at an issue price of \$0.16.

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. The details of the options follow:

Grant date	Expiry date	Exercise price	Number of options
13/07/2020	13/07/2023	\$0.17	800,000
13/07/2020	13/07/2023	\$0.20	800,000
13/07/2020	13/07/2023	\$0.22	800,000

No other matter or circumstance has arisen since 30 June 2020 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 2020



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 2020 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

A handwritten signature in blue ink, appearing to read "Warren Murphy", written over a horizontal line.

Warren Murphy
Managing Director

31 August 2020
Sydney

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 2020, 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 2020 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 disclosed 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 and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business. 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. For each matter below, our description of how our audit addressed the matter 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

The Group generates revenue from sales of activated carbon products which represents 94% of total revenue.

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 of revenue in the context of the financial report, this was considered to be a Key Audit Matter.

Disclosure relating to revenue is included in note 2 and 5 of the financial report.

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 Australian Accounting Standards.
- Analysed and investigated 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 from related documentation and customer payment.
- Selected a sample of revenue transactions before and after year end to ensure revenue was recorded in the correct period.
- Assessed the adequacy of the financial statement disclosures with regard to requirements of Australian Accounting Standards.

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 2020 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

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

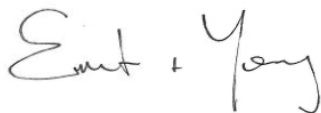
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 13 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Carbonxt Group Limited for the year ended 30 June 2020, 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.



Ernst & Young



Scott Jarrett
Partner
Sydney
31 August 2020

Carbonxt Group Limited
Shareholder information
30 June 2020



The shareholder information set out below was applicable as at 31 July 2020.

Distribution of equitable securities

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

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	93	-
1,001 to 5,000	337	-
5,001 to 10,000	209	-
10,001 to 100,000	640	8
100,001 and over	202	13
	1,481	21
Holding less than a marketable parcel	-	-

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 Number held	% of total shares issued
National Nominees Limited	12,557,148	10.404
Washington H Soul Pattinson	5,393,274	4.469
La Andrews Investments Pty Ltd	4,600,000	3.811
J P Morgan Nominees Australia	4,017,681	3.329
Hi Five Investments Pty Ltd	3,980,364	3.298
Sandhurst Trustees Ltd	3,291,667	2.727
Drnewnham Super Pty Ltd	1,717,953	1.423
Honne Investments Pty Limited	1,500,000	1.243
Bevilles Executives Super Fund	1,232,362	1.021
Super Quinn Pty Ltd	1,228,676	1.018
HSBC Custody Nominees	1,174,916	0.973
Velkov Funds Management	1,139,197	0.944
Cardy & Company Pty Limited	1,071,429	0.888
Appwam Pty Ltd	1,000,000	0.829
Indcorp Consulting Group Pty	1,000,000	0.829
Mrs Lynette Timmins	887,967	0.736
Avanteos Investments Limited	884,531	0.733
Melville Living Pty Ltd	880,000	0.729
Skye Alba Pty Ltd	878,868	0.728
Mr Craig Graeme Chapman	818,750	0.678
	49,254,783	40.810

Ordinary shares held include escrowed shares.

Carbonxt Group Limited
Shareholder information
30 June 2020



Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	16,041,670	23

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares % of total shares issued
Number held	
National Nominees Limited	12,557,148 10.404

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.