carbonenergy

ANNUAL REPORT 2017

Contents

Chairman’s Report

On behalf of the Board, I present Carbon Energy’s Annual Report for the financial year ended 30 June 2017.

The past year has provided the company with many challenges and although it has taken a long and rocky road to get to where we are today, we are now back on track to where we had hoped to be in December 2016.

While the challenge of going into voluntary administration and resurfacing thanks to a supportive major shareholder, served as a delay, our strategy remains the same – to develop a profitable and large scale commercial project in China.

China is the Priority

The company’s immediate focus is firmly on China. Given the difficult political environment the company has experienced in Queensland, more than two years ago Carbon Energy chose to diversify its geographical operations and identified China as providing a supportive governing framework for our unique keyseam technology.

Carbon Energy leads the world in this technology. No other company has innovated underground coal gasification(UCG) to the level Carbon Energy has nor have they proven their technology and had it certified by an independent scientific panel appointed by the State.

Having the Queensland Chief Scientist provide official recognition of keyseam’s results is precisely what the Bloodwood Creek trial site was set up to do. Now it is our job to develop a commercial operation in China.

Once the technology is proven and commercialized in China the opportunities in that country alone will provide a steady stream of interest.

China continues to see UCG as a solution to replace existing coal energy production with alternatives such as keyseam, to improve air quality across the nation. Government policies towards UCG are encouraging including the investment in the International UCG Research Centre, which is part of the China University of Mining Technology of which Carbon Energy is a foundation partner.

The JinHong joint venture remains as the foundation for Carbon Energy’s strategy for growth into China. The joint venture will be capitalised to US$30 million over a 3 year period to achieve its initial goal of developing a commercial demonstration project. Under the technical services agreement Carbon Energy will provide technical and design services support, supervision and training for all joint venture projects.

Since the Annual General Meeting where shareholders approved the transactions contemplated by the Amended Deed of Company Arrangement (DOCA), three coal deposits have been assessed as suitable for continued activity to develop UCG by Carbon Energy and the joint venture and third parties are working to obtain the permits to commence site characterisations required to develop the initial UCG panels.

Carbon Energy’s keyseam Technology

During the past year Carbon Energy has continued to perfect its keyseam technology. Even during administration the company continued meeting its environmental obligations and gaining insight into the rehabilitation process now three years on since the Bloodwood Creek Project was decommissioned. Rehabilitation activities remain on track and while the site is under constant environmental analysis, no active remediation activities are required and the site is returning to base levels by natural attenuation.

This process is further demonstration that keyseam is more advanced than any other UCG technologies, having proven its entire life-cycle process.

Chairman's Report

Carbon Energy's keyseam Technology (continued)

The other advantages of keyseam over other UCG technologies include:

- The only UCG technology to successfully complete the rigorous Queensland Government scientific and environmental evaluations
- Unparalleled site selection and geological modelling which plays a significant part of our IP and know-how
- Automated gasification design, with greater operational control that delivers high quality consistent gas
- Superior environmental credentials which maintains groundwater, requires no fracking, excavation or active remediation

Social Responsibility

During the period, we continued to focus on safety. The safety of our employees, contractors and all those involved in our business is of the highest importance. We continuously monitor our sites to ensure compliance with our Safety Policy and all relevant laws and regulations. During the year, Carbon Energy experienced no lost-time injuries or reportable incidents.

We are also committed to the protection of the environment and adhere strictly to our Environmental Policy, as well as to relevant laws and regulations. We recorded no environmental incidents for the year and no non-compliances or improvement notices resulted from audits performed by regulatory bodies.

Corporate update

The challenges of the last year have not come without a cost. Part of this has been saying good-bye to a great team of experts. Just over a year ago we were lucky enough to employ the services of Managing Director and Chief Executive Officer Kerry Parker, who resigned from the company during the 2017 financial year. The Board would like to thank Kerry for his professionalism and the contribution he made during his time here.

We also said farewell to the Chairman Chris Rawlings, Company Secretary and Chief Financial Officer Catherine Costello and Directors Helen Garnett and Louis Rozman. We wish them well for the future.

It is now time to regroup and appoint a fresh talented team that can take us into China. We will be seeking new leaders to take us forward for Carbon Energy's next phase of growth.

On behalf of the Board and Management team, we also sincerely thank our employees and contractors for their hard work.

Finally, the Board and Management team would also like to recognise our shareholders for their ongoing support. We would like to especially thank Kam Lung for their support in ultimately returning Carbon Energy from voluntary administration. For the start of the new 2018 financial year we have turned our fortunes around, with solid prospects to quickly start a project in China. We look forward to keeping shareholders apprised during the course of the year.

Peter Hogan
Chairman

Corporate Governance Statement

The Company's 2017 Corporate Governance Statement and Appendix 4G can be located on the Company's website: http://www.carbonenergy.com.au/irm/content/corporate-governance.aspx

carbonenergy

FINANCIAL REPORT

2017 FINANCIAL YEAR

TO 30 JUNE 2017

Directors' Report

Board Information

The Directors of Carbon Energy Limited (Company) present their report together with the financial statements of the Consolidated Group, being the Company and its controlled entities, for the financial year ended 30 June 2017.

Directors

The names of Directors in office at any time during or since the end of the year are:

Mr Peter Hogan	Chairman and Non-Executive Director (from 9 March 2017) and Non-Executive Director (to 9 March 2017)
Mr George Su	Alternative Director to Mr Zhuang (to 9 March 2017)
	Non-Executive Director (from 9 March 2017)
	Interim Executive Director (from 19 July 2017)
Mr Huihai Zhuang	Non-Executive Director
Mr Morné Engelbrecht	Managing Director & Chief Executive Officer (resigned 12 August 2016)
Dr Helen Garnett	Non-Executive Director (resigned 13 March 2017)
Mr Kerry Parker	Managing Director & Chief Executive Officer (appointed 1 September 2016, resigned 5 April 2017 as Managing Director, resigned 31 May 2017 as Chief Executive Officer)
Dr Chris Rawlings	Chairman and Non-Executive Director (retired 9 March 2017)
	Interim Executive Chairman (from 15 August 2016 to 14 September 2016)
Mr Louis Rozman	Non-Executive Director (resigned 10 October 2016)

Company Secretary

Ms Ye-Fei Guo	Company Secretary (appointed 5 October 2017)
Mr Ian Morgan	Company Secretary (appointed 31 July 2017)
Ms Catherine Costello	Company Secretary (resigned 31 July 2017).

Other Key Management Personnel

Ms Ye-Fei Guo	Chief Financial Officer & Company Secretary (appointed Chief Financial Officer 22 August 2017, appointed joint Company Secretary 5 October 2017)
Dr Clifford Mallett	Technical Director
Mr Stuart MacKenzie	General Counsel
Mr Terry Moore	General Manager, Operations (resigned 8 September 2017)
Mr Morné Engelbrecht	Managing Director & Chief Executive Officer (resigned 12 August 2016)
Mr Kerry Parker	Managing Director & Chief Executive Officer (appointed 1 September 2016, resigned 5 April 2017 as Managing Director, resigned 31 May 2017 as Chief Executive Officer)
Ms Catherine Costello	Chief Financial Officer & Company Secretary (resigned 1 May 2017 as Chief Financial Officer, resigned 31 July 2017 as Company Secretary)

Directors' Report

Directors' Information

Mr Peter Hogan
Chairman and Non-Executive Director
BBus, CA

Mr Hogan was appointed to the Board on 29 August 2008 and as Chairman on 9 March 2017.

Mr Hogan is a Chartered Accountant providing business advisory services to a diverse range of clients. Mr Hogan worked with PricewaterhouseCoopers for 23 years, including 17 years as Partner before retiring in 2008. He has extensive experience in providing business advisory services to Australian and overseas listed public companies and large private companies. He has particular experience with companies in the consumer and industrial product sectors and the mining sector.

During the past three years Mr Hogan has held the following other ASX listed company Directorships:
- OneAll International Ltd (from December 2015) Non-Executive Director
- Mr Hogan is also Deputy Chairman of Villa Maria Catholic homes Ltd which operates in the retirement living, aged care, social housing, disability and disability education sectors.

Mr Hogan is a member of the Audit & Risk, Remuneration and Nomination Committees.

Mr George Su Su
Non-Executive Director
BA (Bus Admin)

Mr Su was appointed to the Board on 4 December 2015 as Alternate Director to Mr Zhuang and as Non-Executive Director on 9 March 2017.

Mr Su has over 30 years business experience in the Asia Pacific region and is currently based in Sydney. Mr Su was formerly head of the Australian operations of CITIC Securities, China's largest investment bank, between 2009 and 2013. He continues to work with CITIC Securities as their business partner for Australia through Silk Road Corporate Finance Pty Ltd, providing corporate advisory services.

During the past three years Mr Su has held the following other listed company Directorships:
- Oriental Technologies Investment Limited (from September 2007) Non-Executive Director after serving as Managing Director since 1998.
- YPB Group Limited (from July 2014) Non-Executive Director; and

Mr Su served as an independent director on the board of Macquarie Bank's China property fund between 2006 and 2014.

Mr Su is also engaged by Mr Zhuang in the capacity of translator.

Mr Huihai Zhuang
Non-Executive Director
BS degree (Shantou University)

Mr Zhuang was appointed to the Board on 29 October 2015

Mr Zhuang is 100% owner of our cornerstone investor Kam Lung Investment Development Company (Kam Lung). Mr Zhuang was appointed to the Board as the nominee for Kam Lung following their increase in shareholding to 19.99%. Mr Zhuang brings to the board strong networks across Chinese business and government sectors which is anticipated to create a more effective cultural and relationship building leverage for the Company in doing business in China.

Directors' Report

Mr Morné Engelbrecht
Managing Director and Chief Executive Officer (Resigned 12 August 2016)
BCom (Hons) CA(SA), MAICD

Mr Engelbrecht was appointed to the role of Chief Executive Officer on 18 June 2013 and to the Board on 23 July 2013 and resigned on 12 August 2016. Mr Engelbrecht joined the team at Carbon Energy in October 2011 as the Company's Chief Financial Officer and Company Secretary.

Offering over 16 years' oil and gas and resources industry experience across various jurisdictions, including Australia, South Africa, the United Kingdom, Papua New Guinea and China. Prior to joining Carbon Energy Mr Engelbrecht held various financial, commercial and advisory senior management positions and is a Chartered Accountant and a member of the Australian Institute of Company Directors.

Mr Engelbrecht has held no other listed company Directorships in the past three years from August 2016.

Dr Helen Garnett
Non-Executive Director (Resigned 13 March 2017)
BSC (Hons), PhD, FTSE, FAICD

Dr Garnett was appointed to the Board on 6 September 2010 and resigned 13 March 2017.

Dr Garnett has over 30 years' experience in transforming technical innovation into practical commercial outcomes. She has 15 years' experience as a Chief Executive and over 20 years' experience as a Non-Executive Director having been closely associated with the resource and energy sectors throughout this time. She is a Fellow of the Australian Institute of Company Directors and the Academy of Technical Sciences and Engineering. Dr Garnett is currently chair of Generator Property Management and a Non-Executive Director of a number of other non-listed entities.

During the past three years Dr Garnett has held the following other listed company Directorships:

- ABM Resources Limited (from October 2014 to March 2016) Non-Executive Director; and
- Energy Resources of Australia Limited (from January 2005 to June 2015) Non-Executive Director.

Dr Garnett was also the Chair of the Audit & Risk Committee and a member of the Nomination Committee.

Mr Kerry Parker

Managing Director and Chief Executive Officer (Resigned as Managing Director 5 April 2017 and as Chief Executive Officer 31 May 2017).
B Bus, CA, MAICD, SA Fin

Mr Parker was appointed as Managing Director and Chief Executive on 1 September 2016 before resigning as Managing Director on 5 April 2017 and as Chief Executive Officer on 31 May 2017.

Mr Parker is a highly regarded senior executive within the energy, mining, and resources sectors, with over 25 years experience both in Australia and internationally (in Asia, Europe, southern Africa, and the United States). Mr Parker originally commenced his career with KPMG and over a period of approximately 8 years was responsible for a significant number of audit, advisory, due diligence and capital raising assignments.

Mr Parker has held Chief Financial Officer and Managing Director roles with a number of ASX listed entities, including Arrow Energy Limited, CH4 Gas Limited, Panax Geothermal Limited, Inova Resources Limited, Discovery Metals Limited, and Unity Mining Limited. Prior to these roles Kerry held senior finance positions with both Downer Group and Santos. He has also held a number of Non Executive Director roles with both publicly listed and private companies in the resources sector.

During the past three years from 31 July 2017 Mr Parker has held no other listed company Directorships.

Directors' Report

Dr Chris Rawlings
Chairman and Non-Executive Director (Retired 9 March 2017)
BSc (Hons), PhD, FAICD, FAusIMM

Dr Rawlings was appointed to the Board on 1 July 2011 and elected as Chairman on 26 July 2011. He retired from the Board on 9 March 2017.

Dr Chris Rawlings graduated from the University of Newcastle in 1976 with a Bachelor of Science (Honours) in Geology; he then went on to complete a PhD in Structural Geology and Rock Mechanics in 1983. Dr Rawlings has extensive experience managing and operating mining operations and mining companies. He has been a Non-Executive Director of ASX-listed and non-listed public companies for almost 15 years. His strong industry knowledge backed by a pragmatic, results-driven approach is a great advantage to the Company. In 2014, Dr Rawlings was awarded the prestigious Queensland Resources Council Medal for his contributions to the Resources sector over the past 35 years.

Dr Rawlings is a Fellow of the Australasian Institute of Mining and Metallurgy and the Institute of Company Directors. Dr Rawlings is also a Director of Queensland Energy Resources.

Dr Rawlings has held no other listed company Directorships during the past three years from March 2017.

Dr Rawlings was also the Chairman of the Nomination Committee and a member of both the Audit & Risk and Remuneration Committees before retiring.

Mr Louis Rozman
Non-Executive Director (Resigned 10 October 2016)
BEng, MGeos, FAusIMM CP (Man), FAICD

Mr Rozman was appointed to the Board on 7 April 2010 and resigned from the Board on 10 October 2016.

Mr Rozman holds degrees in mining engineering and mineral economics and has 35 years' international experience in mining operations, joint ventures and corporate management. He was previously Chief Operating Officer of major gold producer, AurionGold and Chief Executive Officer of coal seam gas explorer and producer, CH4 Gas Limited.

During the past three years from his resignation Mr Rozman has held the following other listed company Directorships:

- Pacific Energy Limited; (from May 2009) Non-Executive Director
- Kula Gold Limited (from November 2010) Non-Executive Director
- ABM Resources Limited (from May 2014 to October 2014) Non-Executive Director

Mr Rozman is also a Director of some Pacific Road Capital entities and holds and has held a number of other non-listed directorships.

Mr Rozman was Chair of the Remuneration Committee and a member of the Nomination Committee before he resigned.

Directors’ Report

Company Secretary Information

Ye-Fei Guo
Chief Financial Officer and Company Secretary
B Com, CA

Ms Guo was appointed as Chief Financial Offer on 22 August 2017 and Company Secretary on 5 October 2017.

Ms Guo brings over 13 years of experience across a number of sectors including asset and funds management, real estate, energy and financial services. Her experience extends to both listed and unlisted entities with operations in Australia and overseas. Ms Guo holds a Bachelor of Commerce Degree in Accounting and Finance from the University of New South Wales and is a member of the Chartered Accountants Australia and New Zealand.

Mr Ian H Morgan
Company Secretary
B Bus (UTS), MComLaw (Macquarie University), Grad Dip App Fin (FINSIA), CA, ACIS, ACSA, MAICD, F Fin, Company Secretary

Ian was appointed as Company Secretary on 31 July 2017.

Ian is a qualified Company Secretary and Chartered Accountant with over 30 years of experience in businesses operating in Australia and overseas. Ian holds a Bachelor of Business from the NSW Institute of Technology (now University of Technology, Sydney), a Master of Commercial Law from Macquarie University, and a Graduate Diploma of Applied Finance and Investment from the Securities Institute of Australia (now FINSIA). He is an Associate Member of the Institute of Chartered Accountants in Australia, an Associate Member of Chartered Secretaries Australia, a Member of the Australian Institute of Company Directors, and a Fellow of the Financial Services Institute of Australasia (FINSIA).

Ms Catherine Costello
Chief Financial Officer and Company Secretary (Resigned as Chief Financial Officer 1 May 2017 and as Company Secretary 31 July 2017)
BCom, MSc, CA, GradDipACG, GAICD

Catherine Costello joined Carbon Energy in April 2014 as the Company’s Chief Financial Officer and assumed the role of Company Secretary in September 2015. Catherine has 20 years of international experience in the mining, engineering and technology sectors. Her experience extends to global listed entities undergoing significant growth and she brings extensive financial, commercial and corporate governance skills. Prior to accepting the position with Carbon Energy, Catherine held several senior management roles including senior financial positions in Ausenco, Lihir Gold (now Newcrest Mining) and Placer Dome (now Barrick Gold).

Catherine has a Bachelor of Commerce Degree from the University of Queensland, a Master of Science (Mineral Economics) from Curtin University is a member of the Chartered Accountants Australia and New Zealand and a member of the Governance Institute of Australia.

Directors' Report

Principal Activities

The principal activities of the Consolidated Group during the financial year were:

- To progress the China JinHong New Energy JV.
- To license *keyseam* technology internationally.
- To establish *keyseam* as the UCG technology of choice for UCG projects worldwide.
- To continue to prove and improve its proprietary underground coal gasification (UCG) technology, *keysea*m.

Operating Results

The loss of the Consolidated Group after providing for income tax amounted to $39,324,959 (2016: loss $100,545,304). The loss for the year includes total impairment charges of $34,511,191 (2016: $95,666,870). Excluding the impairment charge above, the Company's net loss after tax for the year was $4,813,768 (2016: $4,867,954).

Dividends Paid or Recommended

No dividend was paid or declared during the year ended 30 June 2017 (2016: nil).

Review of Operations

Carbon Energy's operations are based around its established UCG projects and business development opportunities.

JinHong Joint Venture (JV)

During the year the JV advanced some of the critical milestones toward developing a commercial demonstration project. Three coal deposits have been assessed as suitable for continued activity to develop UCG by Carbon Energy and the JV and third parties are working to obtain the permits to commence site characterisations required to develop the initial UCG panels.

China UCG Research Centre

During the year Carbon Energy staff continued to assist in establishing the plans and research program for China University for Mining and Technology's ("CUMT") International Research Centre for UCG. The research program has been approved by the Centre Board, and CUMT has allocated resources of staff and funding for projects.

The Centre continues to review potential projects suitable for field research trials and several groups are progressing permitting and funding arrangements.

The Centre was established in 2016 to encourage the development of UCG technology by industry and government groups alike throughout the whole of China, as the preferred environmentally acceptable utilisation method for coal gasification. The Centre will seek to simplify the regulatory process by establishing national and international standards of operation for UCG and formally seek recognition by government. The China National Administration for Coal Geology has agreed to join the Centre as a Founding Member.

The establishment of the Centre is an important step forward in the advancement of Carbon Energy's expansion plans in China.

Bloodwood Creek Rehabilitation

The Company continues to fulfil its environmental obligations in progressing rehabilitation requirements and on-going monitoring at its Bloodwood Creek Site. As verified by independent experts accredited by the Queensland Government, the Bloodwood Creek site requires no active remediation however continued environmental monitoring provides the Company with further assurance and confidence in our successful keyseam technology.

Directors' Report

Review of Operations (continued)

Bloodwood Creek Rehabilitation (continued)

During the year, the Director General of Department of Natural Resources and Mines visited the Bloodwood Creek site at the request of the Petroleum and Gas Inspector, who identified Carbon Energy's rehabilitation activities as world class.

The Administrators engaged an independent environment consultant to undertake a review of the Bloodwood Creek site, the Company's compliance with its environmental authorities and the adequacy of the proposed rehabilitation plans and financial commitment. No significant deficiencies or areas for improvement were identified.

MOU for a large-scale solar energy plant and storage facility at Bloodwood Creek

The MOU with Photon Energy expired in late December 2016 as the Administrators were not prepared to commit to extending the MOU until the future of the Company was ascertained. The Company will seek to renew the MOU with Photon Energy in the near future.

Corporate Affairs

On 27 November 2015 the Company advised it had been served with proceedings filed by Summa Resource Holdings LLC (Summa) against it in the United States District Court for the Northern District of California (Complaint).

As announced to the ASX on 6 May 2016, the Court dismissed the Complaint without the need for a hearing.

When the Company entered Voluntary Administration on 22 November 2016, Summa submitted a proof of debt to the Administrators totalling US$9 million in relation to a claim pursuant to a share sale agreement dated February 2011 between Summa and the Company.

As reported by the Administrators in their Section 411 Report to Creditors, the proof of debt received from Summa did not contain sufficient information for the Administrators to assess the validity of its claim. The Administrators wrote to Summa requesting further particulars, including an explanation as to why Summa believes its entitlement to receive the tranche 4 and 5 shares has converted to a monetary claim of US$9 million.

Summa provided further particulars of its claim on 1 February 2017 that justified an arguable claim against the Company for breach of contract for US$9 million. However, on the information provided by Summa, the claim is a "subordinate claim" against the Company within the meaning of Section 563A of the Act. A subordinate claim is defined to be either:

- a claim for a debt owed by the company to a person in the person's capacity as a member of the company (whether by way of dividends, profits or otherwise); or
- any other claim that arises from buying, holding, selling or otherwise dealing in shares in the company.

In the Administrators' opinion, the claim articulated by Summa falls within both limbs of this definition.

In general terms, creditors who have subordinate claims are postponed until all other debts payable by, and claims against, the Company have been satisfied. That is, subordinate creditors are placed last on the priority ladder. The amended Deed of Company Arrangement (DOCA) provided that there was insufficient consideration available to fully repay unsecured creditors and accordingly insufficient funds were available to make any payment to subordinate creditors.

Directors' Report

Review of Operations (continued)

Corporate Affairs (continued)

On approval of the DOCA, all unsecured claims against the Company which existed as at the date of appointment of the administrators were released in return for a right to participate in the trust fund established under the DOCA. This included any claim that Summa asserts against the Company.

Significant Changes in the State of Affairs

- In July 2016 the Company placed $400,000 of its remaining shortfall from the March 2016 rights issue.
- On 25 July 2016, the Queensland Chief Scientist confirmed Carbon Energy had successfully completed the Independent Scientific Panel Process and that its keyseam technology met the key recommendations of the government appointed Independent Scientific Panel (ISP) into underground coal gasification, stating *"it is clear that Carbon Energy has contributed to the collective understanding of UCG and the conditions under which the operation is likely to be both safe and successful."*.
- The Company received a $1.4 million Research and Development Tax incentive cash rebate (as expected) on 16 August 2016.
- The JinHong Joint Venture in China was capitalised in late September 2016 after receiving the initial required $10 million milestone payment under the JV agreement.
- The Company released 123,845,128 shares from escrow, pursuant to a voluntary escrow deed entered into between the Company and Kam Lung Investment Development Company (Kam Lung), Carbon Energy's cornerstone investor. These shares were issued as part of a private placement to Kam Lung that was completed in September 2015.
- A Terms Sheet agreement was signed with Ascot Energy Limited to license keyseam for a proposed 30MW power generation project in Indonesia, subject to completion of a number of conditions around project selection and financing (by Ascot Energy).
- On 25 October 2016, the Company announced the key terms of the refinancing of its $10 million convertible note facility and recapitalisation through an underwritten rights issue of $5 million, both with the support of its major shareholder, Kam Lung Investment Development Corporation. Unfortunately, during the process of the finalisation of required documents to effect the refinancing, efforts as between the parties came to a standstill regarding legal considerations and the transactions as contemplated were unable to be finalised.
- As a result of the legal considerations referred to in the preceding paragraph, on 22 November 2016, the Board of Directors of Carbon Energy Limited resolved to place the Company and two of its subsidiaries into Voluntary Administration, appointing Tim Michael and Will Colwell from Ferrier Hodgson as Administrators.
- On 25 November 2016 ASIC granted approval to extend the timeframe for the Company to hold its 2016 Annual General Meeting to 22 July 2017.
- The Administrators held the first meeting of creditors on 2 December 2016. A Committee of Creditors was formed for each of the group companies that had been placed into Voluntary Administration.
- The Administrators received a number of expressions of interest, with three parties shortlisted with their expressions of interest all centred on a recapitalisation of the Consolidated Group and re-listing on the ASX. At the second meeting of creditors held on 9 March 2017, it was resolved that the Company (and the two related companies) execute a DOCA. The DOCA was executed on 9 March 2017 and control of the company (and the two related companies) reverted to the Directors.
- Subsequent to execution of the DOCA the Company, Kam Lung Investment Development Co. Ltd ("Kam Lung") and the Pacific Road Group ("Pacific Road") worked on satisfying the conditions precedent, finalising the financing documentation and preparing the Notice of Meeting to shareholders.

Directors' Report

Significant Changes in the State of Affairs (continued)

- The DOCA contained a number of conditions precedent including requiring that the employment or other contracts of the key employees and key contractors (as named) continued on terms satisfactory to Kam Lung. A mutually acceptable agreement was not reached. Kam Lung and Pacific Road subsequently entered discussions to seek an alternative path forward to find a mechanism to waive the key employee condition precedent, resulting in an amendment to the DOCA. The amended DOCA was approved by creditors at a meeting held on 23 May 2017.
- The transactions contemplated under the DOCA were subsequently approved by shareholders at the 2016 Annual General Meeting held on 18 July 2017.
- During the period, there was also a number of changes to the Board of Directors, Company Secretary and Key Management Personnel. These are disclosed under the Board Information section of the Directors' Report.

After Balance Date Events

On 18 July 2017, the Company held its 2016 Annual General Meeting whereby all resolutions put to shareholders were passed. The resolutions included the approval of the recapitalisation transactions contemplated under the DOCA, the consolidation of share capital, the election / re-election of various Directors, a 10% placement capacity, adoption of an employee incentive plan, the appointment of auditors and the adoption of the prior year remuneration report. All conditions precedent provided for under the DOCA was subsequently satisfied and the DOCA completion was achieved.

As a result of the transactions contemplated under the DOCA, Kam Lung's ownership in the Company increased to 80%. Pacific Road and its associated entities ceased to be a substantial holder in the Company.

On 24 July 2017, the Company completed its 1:100 share consolidation.

On commencement of trading on 26 July 2017, the suspension of trading in the Company's securities was lifted by the ASX.

On 2 October 2017, the Company announced that three coal deposits have been assessed as suitable for continued activity to develop UCG by Carbon Energy and the JV and third parties are working to obtain the permits to commence site characterisations required to develop the initial UCG panels.

The Company's securities were suspended from Official Quotation as from the commencement of trading on 2 October 2017, in accordance with ASX Listing Rule 17.5.

Apart from the matters noted above, the Directors are not aware of any other matters or circumstances not otherwise dealt with in the report or financial statements that have significantly, or may significantly affect the operations of the Company or the Consolidated Group, the results of the operations of the Company or the Consolidated Group, or the state of affairs of the Company or the Consolidated Group in subsequent financial years.

Environmental Performance & Approvals

The Consolidated Group's operations are subject to significant environmental regulation under the Laws of the Commonwealth and State. The Consolidated Group operates the Bloodwood Creek site under a Level 2 Environmental Authority, where the focus has moved to Rehabilitation after completion of a comprehensive drilling and sampling program in May 2014 and submission of the Decommissioning Report and Rehabilitation Plan to the Queensland Government in August 2014 and October 2014 respectively. The Consolidated Group continues to provide monthly groundwater quality reports to the Department of Environment and Heritage Protection and no issues relating to water quality have been raised by the Department.

Non-audit Services

No fees were paid for non-audit services to Grant Thornton during the year ended 30 June 2017.

Directors' Report

Indemnifying Officers

The Company has continued an insurance policy insuring Directors and Officers of the Company against any liability arising from a claim brought by a third party against the Company or its Directors and Officers, and against liabilities for costs and expenses incurred by them in defending any legal proceedings arising from their conduct while acting in their capacity as a Director or Officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

In accordance with a confidentiality clause under the insurance policy, the amount of the premium paid to insurers has not been disclosed. This is permitted under section 300(9) of the Corporations Act.

Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 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.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act.

Meeting Attendance

Director	Board Meeting [1]		Audit and Risk Committee Meeting		Remuneration Committee Meeting		Nomination Committee Meeting	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Peter Hogan [2]	25	25	2	2	1	1	0	0
George Su [3]	8	8	NM	NM	NM	NM	0	0
Huihai Zhuang [4]	14	11	NM	NM	NM	NM	0	0
George Su (As alternate for Mr Zhuang) [4]	4	4	NM	NM	NM	NM	0	0
Morné Engelbrecht [3]	2	2	NM	NM	NM	NM	0	0
Helen Garnett [3]	19	18	1	1	NM	NM	0	0
Kerry Parker [3]	17	17	NM	NM	NM	NM	0	0
Chris Rawlings [3]	18	18	1	1	1	1	0	0
Louis Rozman [3]	4	4	NM	NM	1	1	0	0

NM – Not a member of the Committee.

1. Twelve Board Meetings held during the current year ended 30 June 2017 were eligible for attendance by non-associated Directors only.
2. Mr Hogan was not eligible to participate in the meeting regarding Chairman's remuneration.
3. Various Directors were only eligible for attendance at certain meetings as a result of their appointments, retirements and/or resignations during the current year ended 30 June 2017.
4. Of the fourteen meetings that Mr Zhuang was eligible to attend:
   (a) Two was attended by Mr Su as Mr Zhuang's alternate; and
   (b) Three were attended by Mr Zhuang and Mr Su, with Mr Su being invited as Mr Zhuang's translator.

Directors' Report

Directors' Interests

As at 22 September 2017, the interests of the Directors in shares and unlisted options of the Company are:

	No. Shares Held [1]		Listed Options		Unlisted Options	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Peter Hogan	-	7,500	-	-	-	-
George Su	-	-	-	-	-	-
Huihai Zhuang	-	51,946,721	-	-	-	-
Total	**-**	**51,954,221**	**-**	**-**	**-**	**-**

1. The Company undertook a 1:100 Share Consolidation, which was approved by shareholders on 18 July 2017 and completed on 24 July 2017.

Directors' Report

Remuneration Report (Audited)

The Directors are pleased to present Carbon Energy Limited's 2017 Remuneration report which sets out information about the remuneration of the Company's Non-Executive Directors, Executive Director and other Key Management Personnel. The information provided in this report has been audited as required by section 308(3C) of the Corporations Act 2001 and forms part of the Directors' report.

Key Management Personnel

Key Management Personnel are divided into three separate groups for ease of reference:

Non-Executive Directors

Mr Peter Hogan	Chairman and Non-Executive Director (from 9 March 2017) and Non-Executive Director (to 9 March 2017)
Mr George Su	Alternative Director to Mr Zhuang (to 9 March 2017)
	Non-Executive Director (from 9 March 2017)
	Interim Executive Director (from 19 July 2017)
Mr Huihai Zhuang	Non-Executive Director
Dr Helen Garnett	Non-Executive Director (resigned 13 March 2017)
Dr Chris Rawlings	Chairman and Non-Executive Director (retired 9 March 2017)
Mr Louis Rozman	Non-Executive Director (resigned 10 October 2016)

Executive Director

Mr George Su	Interim Executive Director (from 19 July 2017)
Mr Morné Engelbrecht	Managing Director & Chief Executive Officer (resigned 12 August 2016)
Mr Kerry Parker	Managing Director & Chief Executive Officer (appointed 1 September 2016, resigned 5 April 2017 as Managing Director, resigned 31 May 2017 as Chief Executive Officer)
Dr Chris Rawlings	Interim Executive Chairman (from 15 August 2016 to 14 September 2016)

Other Key Management Personnel

Ms Ye-Fei Guo	Chief Financial Officer & Company Secretary (appointed Chief Financial Officer 22 August 2017, appointed joint Company Secretary 5 October 2017)
Dr Clifford Mallett	Technical Director
Mr Stuart MacKenzie	General Counsel
Mr Terry Moore	General Manager, Operations (resigned 8 September 2017)
Ms Catherine Costello	Chief Financial Officer & Company Secretary (resigned 1 May 2017 as Chief Financial Officer, resigned 31 July 2017 as Company Secretary)
Mr Morné Engelbrecht	Managing Director & Chief Executive Officer (resigned 12 August 2016)
Mr Kerry Parker	Managing Director & Chief Executive Officer (appointed 1 September 2016, resigned 5 April 2017 as Managing Director, resigned 31 May 2017 as Chief Executive Officer)

Directors' Report

Remuneration Report (Audited)

Remuneration Governance

The Remuneration Committee is a committee of the Board. It is primarily responsible for making recommendations to the Board on:

- The over-arching executive remuneration framework.
- Operation of the incentive arrangements which apply to Executive Directors and senior executives (the executive team), including key performance indicators and performance hurdles.
- Remuneration levels of executives.
- Non-Executive Director fees.

The objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company.

The Corporate Governance Statement provides further information on the role of this committee and the Remuneration Committee Charter is set out on the Company's website: www.carbonenergy.com.au

Voting and Comments made at the Company's 2016 Annual General Meeting

The Company received more than 76.95% of "yes" votes on its remuneration report for the 2016 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Non-Executive Director Remuneration Policy

The remuneration and terms of employment for the Non-Executive Directors are subject to annual review with no fixed term, with one third of the Directors being subject to re-election at each Annual General Meeting of Shareholders. The total amount paid during the current year ended 30 June 2017 was a maximum of $40,000 per annum plus statutory superannuation to each Non-Executive Director and a maximum of $120,000 per annum plus statutory superannuation to the Chairman of the Board. The Chair of the Audit and Risk Committee is paid an additional $10,000 per annum plus superannuation.

No termination payment provisions are currently in place for Non-Executive Directors.

Executive Remuneration Policy

The remuneration policy, which sets the terms and conditions for the Executive Director and other Executives, was developed by the Remuneration Committee after seeking professional advice from independent consultants and was approved by the Board. All permanent Executives and the Executive Director receive a base salary, superannuation, car park and performance incentives.

The Remuneration Committee reviews Executive packages annually by reference to group performance, Executive performance, comparable information from industry sectors and other listed companies and independent advice. The performance of Executives are reviewed annually by the Executive Director and the Executive Director's performance is reviewed by the Remuneration Committee, with revised remuneration packages generally taking effect from the 1st of July of the new financial year.

Directors' Report

Remuneration Report (Audited)

Executive Remuneration Policy (continued)

The payment of bonuses, shares, options, performance rights, and other incentive payments are reviewed by the Remuneration Committee annually as part of the review of Executive remuneration and a recommendation is put to the Board for approval. All bonuses, shares, options, performance rights, and other incentives must be linked to predetermined performance criteria. The Board can exercise its discretion in relation to approving performance incentives and can recommend changes to the Remuneration Committee recommendations.

Any changes must be justified by reference to measurable performance criteria.

Remuneration Consultant

From time to time the Remuneration Committee will engage advisors to assist in the continual evolution and development of the Consolidated Group's remuneration policies and framework. No remuneration consultants have been engaged during the current year.

Executive Remuneration Framework

There are three general components of remuneration used to reward permanent employees, including Executives, depending on their role and responsibility within the Consolidated Group:

1. Total Fixed Remuneration.
2. Short Term Incentive (STI).
3. Long Term Incentive (LTI).

The STI and LTI components paid to permanent Executives are generally determined as a percentage of their fixed remuneration package and are payable in cash, shares, performance rights or options in Carbon Energy Limited. The Remuneration Committee has the discretion to approve payment of the STI component as cash in lieu of shares. No bonuses were paid for the FY17 performance period.

The Board expects that the remuneration structure implemented will result in the Company being able to attract and retain the best Executives to run the Consolidated Group. It will also provide Executives with the necessary incentives to work to grow long-term shareholder value.

Total Fixed Remuneration

Total Fixed Remuneration comprises base salary and statutory superannuation. Total Fixed Remuneration is set with reference to market data, reflecting the scope of the role and the performance of the employee in the role.

Total Fixed Remuneration also reflects any market premium required for roles that are in short supply or with a unique skill set. Remuneration is reviewed annually using data gathered from multiple sources which may include market surveys, external remuneration consultants, and internal feedback as to market conditions, as considered appropriate to provide analysis and advice to ensure competitive remuneration is set to reflect the market for comparable roles. Due to the nature of the business, fixed remuneration of Executives is not linked to the performance of the Company due to the requirement to retain these employees to develop the Company and meet its current strategic objectives.

Remuneration Report (Audited)

Executive Remuneration Policy (continued)

Short Term Incentive (STI)

Carbon Energy offers an STI to the permanent Executives including the Executive Director to achieve the following objectives:

- Focus Executives on the achievement of key targets as well as individual contribution that the Board believes will lead to sustained and improved business performance.
- Reward and recognise superior performance.

The metrics, weightings and performance measures are reviewed annually to ensure business needs are met and the overall STI is consistent with general market practices.

The STI scheme involves establishing the STI value for the financial year, subject to satisfactorily meeting Key Performance Indicators (KPIs). At the end of each financial year, the Executives (excluding the Executive Director) would be awarded their STI in cash or allocated a number of shares equivalent to the cash value of the STI, based on the 90 day VWAP prior to the Remuneration Committee endorsement of the recommended share allocation (subject to the Remuneration Committee's discretion to pay the STI as cash in lieu of shares). The Executive Director's STI is paid in cash, unless the Executive Director elects to receive shares or options and this is approved by the Remuneration Committee and the shareholders.

No STI's were awarded to the Executive Director or permanent Executives for the FY17 year. These STI's would normally be paid in the subsequent year.

Long Term Incentive (LTI)

On 13 February 2015, the Remuneration Committee approved changes to the LTI arrangements applicable to Executives for the FY15 and subsequent financial years.

The Remuneration Committee approved a 3 year Executive performance rights LTI plan be put in place for the 2017 financial year (applying to all Executives including the Executive Director, noting the LTI for the Executive Director will require shareholder approval). The LTI plan incorporates 1, 2 and 3 year performance periods, with 1/3 of the allocated performance rights being tested annually. The performance hurdles are market based and service based tests, in equal proportions. The inclusion of a service based test is in recognition that significant developments can be progressed during a performance period, however given the Company's stage in its lifecycle, may not be fully reflective in the share price at that point in time.

During the year, the Executive Director's performance rights were subject to the following vesting conditions:

- For tranche 1 (30/06/17): Successful ignition of the JinHong JV demonstration project and the issue of an exclusive licence being granted to the Joint Venture;
- For tranche 2 (30/06/18): Securing at least one third party licencing and technical services agreement with a significant up front cash component; and
- For tranche 3 (30/06/19): Securing one more third party licencing and technical service agreements with a significant up front cash component.

Each performance right is a conditional entitlement to one fully paid ordinary share in Carbon Energy Limited.

Directors' Report

Remuneration Report (Audited)

Executive Remuneration Policy (continued)

Long Term Incentive (LTI) (continued)

Subsequent to current year end, on 18 July 2017, shareholders approved the implementation of an omnibus incentive plan (Incentive Plan) for the Company and for the issue of Equity Securities under the Incentive Plan. The Board considers this Incentive Plan to be a key part of the Company's remuneration strategy going forward and to assist in the alignment of shareholder, director, employee and contractors' interests. The Incentive Plan is intended to furnish an incentive to directors, officers, senior executives and other employees of the Company, as well as consultants and service providers providing ongoing services to the Company to continue their services for the Company and to encourage eligible participants whose skills, performance and loyalty to the objectives and interests of the Company are necessary to its success. The Incentive Plan will permit the granting of options, bonus shares, and performance rights to eligible participants of the Company. The Incentive Plan will be administered by the Board or by a committee appointed by a resolution of the Board.

The Company has previously operated a securities incentive program. The terms and conditions of the incentive plan offers made to eligible employees (participants) over this duration have been agreed in letters between the Company and the relevant participant, disclosed annually in the remuneration report and, where required, the issue thereof approved by Shareholders at the relevant annual general meeting. However, the Company has not previously has a formal group incentive plan documented.

Relationship between Remuneration and the Company's Performance

The Company's key performance indicators for remuneration were not linked to the Company's share price for the FY17 year.

Directors' Report

Remuneration Report (Audited)

Details of Remuneration

The remuneration for each Director of the Consolidated Group during the current year is noted as follows:

2017	Cash							Non-cash			
	Short term employee benefits				Post employment benefits			Share-based Payments Expense		Forfeited Options	Performance Related
	Cash Salary	Bonus (ix)	Directors Fee	Other (x)	Super Contributions	Termination costs	Total Cash Payments	Options (vii)	Shares		
	$	$	$	$	$	$	$	$	$	$	%
NON-EXECUTIVE DIRECTOR											
Peter Hogan(i)(ii)	-	-	36,216	-	-	-	**36,216**	-	-	-	-
George Su (ii)(iii)	-	-	22,493	-	-	-	**22,493**	-	-	-	-
Huihai Zhuang(iv)	-	-	-	-	-	-	-	-	-	-	-
Helen Garnett (ii)	-	-	22,219	-	-	-	**22,219**	-	-	-	-
Chris Rawlings (ii)	-	-	40,415	-	3,984	-	**44,399**	-	-	-	-
Louis Rozman(v)	-	-	10,000	-	-	-	**10,000**	-	-	-	-
SUB-TOTAL $	**-**	**-**	**131,343**	**-**	**3,984**	-	**135,327**	**-**	**-**	**-**	
EXECUTIVE DIRECTOR											
Morné Engelbrecht (vi)	48,109	73,531	-	495	-	34,677	**156,812**	-	-	-	-
Kerry Parker (vii)	166,193	-	-	2,030	-	9,228	**177,451**	-	-	-	-
Chris Rawlings (viii)	19,731	-	-	150	-	-	**19,881**	-	-	-	-
SUB-TOTAL $	**234,033**	**73,531**	**-**	**2,675**	**-**	**43,905**	**354,144**	-	-	-	-
GRAND TOTALS	**234,033**	**73,531**	**131,343**	**2,675**	**3,984**	**43,905**	**489,471**	-	-	-	-

(i) Peter Hogan's fees are paid to Horizon Court Pty Ltd, as associated entity of Mr Hogan.
(ii) Fees include amounts accrued at 30 June 2017 year end and settled subsequent to year end either directly by the Company or via partial dividend from the creditor's trust as contemplated under the DOCA.
(iii) Up to 9 March 2017, George Su did not receive Director fees from the Company as he is Huihai Zhuang's Alternate Director when appointed and translator for Board meetings and correspondence. Mr Su's fees for these services have been negotiated between Mr Zhuang and Mr Su. From 9 March 2017 onwards, Mr Su received fees from the Company as Director. Mr Su's fees are paid to Silk Road Corporate Finance Pty Ltd, as an associated entity of Mr Su.
(iv) Huihai Zhuang's fees are paid directly to Silk Road Corporate Finance Pty Ltd, an associated entity of George Su.
(v) Louis Rozman's fees are paid directly to Pacific Road Capital Management Holdings Pty Limited.
(vi) Morné Engelbrecht ceased to be an Executive Director upon resignation on 12 August 2016.
(vii) Kerry Parker was appointed 1 September 2017 and ceased to be Managing Director upon resignation on 5 April 2017 and Chief Executive Officer upon resignation on 31 May 2017. Mr Parker continued to provide consulting services subsequently to July 2017.
(viii) Chris Rawlings was appointed as Interim Executive Chairman from 15 August 2016 and remained in this position until two weeks after the start date of the newly appointed Chief Executive Officer and Managing Director.
(ix) Represents FY16 bonus paid in FY17.
(x) Other payments include car parking and associated fringe benefits tax.

Remuneration Report (Audited)

Details of Remuneration (continued)

The remuneration for each Director of the Consolidated Group during the prior year is noted as follows:

2016	Cash						Non-cash			
	Short term employee benefits				Post employment benefits		Share-based Payments Expense		Forfeited Options	Performance Related
	Cash Salary	Bonus	Directors Fee (vi)	Other (v)	Super Contributions	Total Cash Payments	Options (vii)	Shares		
	$	$	$	$	$	$	$	$	$	%
NON-EXECUTIVE DIRECTOR										
Chris Rawlings	-	-	120,000	-	11,400	**131,400**	-	-	-	-
Helen Garnett	-	-	50,000	-	4,750	**54,750**	-	-	-	-
Peter Hogan(i)	-	-	40,000	-	-	**40,000**	-	-	-	-
Louis Rozman(ii)(vi)	-	-	30,000	-	-	**30,000**	-	-	-	-
Huihai Zhuang(iii)	-	-	26,957	-	-	**26,957**	-	-	-	-
George Su(iv)	-	-	-	-	-	-	-	-	-	-
SUB-TOTAL $	**-**	**-**	**266,957**	**-**	**16,150**	**283,107**	**-**	**-**	**-**	
EXECUTIVE DIRECTOR										
Morné Engelbrecht (v)(vii)	397,582	-	-	43,859	30,000	**471,441**	43,188	-	(129,567)	8%
SUB-TOTAL $	**397,582**	**-**	**-**	**43,859**	**30,000**	**471,441**	**43,188**	**-**	**(129,567)**	
GRAND TOTALS	**397,582**	**-**	**266,957**	**43,859**	**46,150**	**754,548**	**43,188**	**-**	**(129,567)**	

(i) Peter Hogan's fees are paid directly to Incitec Pivot Limited.
(ii) Louis Rozman's fees are paid directly to Pacific Road Capital Management Holdings Pty Limited.
(iii) Huihai Zhuang's fees are paid directly to Silk Road Capital Finance, an associated entity of George Su.
(iv) George Su does not receive Director fees from the Company as he is Huihai Zhuang's Alternate when appointed and translator for Board meetings and correspondence. George Su's fees for these services have been negotiated between Huihai Zhuang and George Su.
(v) Other payments include car parking, associated fringe benefits tax and partial cash out of annual leave.
(vi) Pacific Road Capital Management Holdings Pty Limited elected to waive 100% of Mr Rozman's fee for the first quarter of 2016.
(vii) Morné Engelbrecht was granted 99,999,999 options with share price performance hurdles. As at 30 June 2016 the remaining 33,333,333 were forfeited as a result of failure to meet the share price performance hurdles for this year.

Directors' Report

Remuneration Report (Audited)

Details of Remuneration (continued)

The remuneration for each Key Management Personnel of the Consolidated Group during the current year is noted as follows:

2017	Cash						Non-cash				
	Short term employee benefits			Post-employment benefits			Long-term benefits	Share-based Payments			
	Cash Salary	Bonus	Other (iii)	Super Contributions	Termination Costs	Total	Long Service Leave	Rights (vi)	Shares	Forfeited Right s(vii)	Performance Related
	$	$	$	$	$	$	$	$	$	$	%
Catherine Costello(i)	211,634	27,000	2,714	22,670	24,566	**288,584**	-	-	-	-	-
Stuart MacKenzie	84,885	-	-	8,395	-	**93,280**	-	-	-	-	-
Cliff Mallett	166,465	15,407	3,020	25,802	-	**210,694**	4,150	-	-	-	-
Terry Moore(ii)	228,891	20,304	2,495	26,563	-	**278,253**	-	-	-	-	-
TOTALS	**691,875**	**62,711**	**8,229**	**83,430**	**24,566**	**870,811**	**4,150**	**-**	**-**	**-**	

(i) Catherine Costello ceased to be a KMP upon resignation on 1 May 2017. Ms Costello continued to provide consulting services subsequently to 31 July 2017.
(ii) Terry Moore ceased to be a KPM subsequent to year end upon resignation on 8 September 2017.
(iii) Other payments include car parking and associated fringe benefits tax

Directors' Report

Remuneration Report (Audited)

Details of Remuneration (continued)

The remuneration for each Key Management Personnel of the Consolidated Group during the prior year is noted as follows:

	Cash					Non-cash				
	Short term employee benefits		Post-employment benefits			Long-term benefits	Share-based Payments			
2016	Cash Salary	Other (v)	Super Contributions	Termination Costs	Total	Long Service Leave	Rights (vi)	Shares	Forfeited Right s(vii)	Performance Related
	$	$	$	$	$	$	$	$	$	%
Tracy Bragg (i)	51,016	3,558	5,097	10,341	**70,012**	-	3,240	-	(6,480)	4%
Catherine Costello(ii)	265,506	12,023	25,674	-	**303,203**	-	12,960	-	(16,200)	4%
Justin Haines(iii)	37,435	893	3,556	30,019	**71,903**	-	1,080	-	(4,320)	1%
Stuart MacKenzie (iv)	84,524	-	8,030	-	**92,554**	-	-	-	-	0%
Cliff Mallett	170,441	4,121	34,995	-	**209,557**	5,044	12,960	-	(16,200)	6%
Terry Moore(ii)	237,534	26,023	34,998	-	**298,555**	-	12,960	-	(16,200)	4%
TOTALS	**846,456**	**46,618**	**112,350**	**40,360**	**1,045,784**	**5,044**	**43,200**	**-**	**(59,400)**	

(ii) Tracy Bragg ceased to be a KMP upon termination on 30 September 2015.
(iii) Other payments include a partial cash out of annual leave
(iv) Justin Haines ceased to be a KMP upon termination on 14 August 2015.
(v) Stuart MacKenzie commenced as General Counsel on 27 November 2015 on a casual basis.
(vi) Other payments include car parking, car benefits and partial cash out of annual leave.
(vii) The value of performance rights is calculated as at the grant date. Performance rights are valued using a Monte Carlo pricing model. The amounts disclosed as part of remuneration have been determined by allocating the grant date value on a straight-line basis over the period of grant date to vesting date.
(viii) Each Executive was granted 5,000,000 performance rights in FY15 with share price performance hurdles. As at 30 June 2016 the remaining 2,500,000 per Executive were forfeited as a result of either termination of employment or failure to meet the share price performance hurdles for this year.

Remuneration Report (Audited)

Service Agreements of Executive Directors and Key Management Personnel

Remuneration and other terms of employment for the Executives are formalised in service agreements. The service agreements specify the components of remuneration, benefits and notice periods. Participation in the STI and LTI arrangements is subject to the Board's discretion. Other major provisions of the agreements relating to remuneration are set out below.

Termination benefits are within the limits set by the Corporations Act 2001 such that they do not require shareholder approval.

.Name	Term of Agreement	Total Fixed Remuneration (per annum)	Notice Period(viii)	Termination Payments(ix)
George Su(i)	From 19 July 2017	$60,000	-	-
Morné Engelbrecht(ii)	Fixed term contract to 12 August 2016	$425,000	-	-
Kerry Parker (iii)	3 year term from 1 September 2016	$315,000	6 months	-
Chris Rawlings(iv)	From 15 August 2016 until two weeks after the start date of the Chief Executive Officer and Managing Director	$295,651	-	-
Ye-Fei Guo(v)	No fixed term	$262,800	3 months	-
Catherine Costello(vi)	No fixed term	$295,650	3 months	-
Stuart MacKenzie	Casual basis	nil	7 days	-
Cliff Mallett	3 year fixed term contract to 30 June 2019	$205,432	3 months	12 months
Terry Moore(vii)	No fixed term	$270,720	3 months	-

(i) George Su is appointed as Interim Executive Director from 19 July 2017. Remuneration is paid to Silk Road Corporate Finance Pty Ltd, as an associated entity of Mr Su.
(ii) Morné Engelbrecht's term of appointment was extended from 17 June 2016 to 12 August 2016, upon when he ceased to be an Executive Director.
(iii) Kerry Parker was appointed 1 September 2017 and ceased to be Managing Director upon resignation on 5 April 2017 and Chief Executive Officer upon resignation on 31 May 2017. Mr Parker continued to provide consulting services subsequently to July 2017.
(iv) Chris Rawlings was appointed Interim Executive Chairman from 15 August 2016 and remained in this position until two weeks after the start date of the newly appointed Chief Executive Officer and Managing Director. The employment agreement terminated two weeks after the start date of the newly appointed Chief Executive Officer & Managing Director. Upon termination Dr Rawlings will revert back to Non-executive Chairman on the same terms and conditions prior to his appointment as Interim Executive Chairman.
(v) Ye-Fei Guo commenced 22 August 2017.
(vi) Catherine Costello ceased to be a KMP upon resignation on 1 May 2017. Ms Costello continued to provide consulting services subsequently to 31 July 2017.
(vii) Terry Moore ceased to be a KMP upon resignation on 8 September 2017.
(viii) Under certain circumstances, contracts may allow for immediate termination and/or, payment in lieu of notice.
(ix) Under certain circumstances, payable if the Company terminates employment during the term of the agreement. Certain contracts may also allow for payment of maximum STI entitlements and immediate vesting of any performance rights already issued in the event of termination from redundancy or change of control. Where no termination payment is specified, statutory entitlements on termination apply, based on length of service.

Remuneration Report (Audited)

Details of Options and Performance Rights

No options were granted as remuneration for the current year ended 30 June 2017 (2016: nil). No options were expensed during the current year ended 30 June 2017.

Options accrued and expensed during the 2016 year that were granted as compensation were as follows:

2016	Options Expensed $	Options Forfeited (iv) Number	Year Options Forfeited were Granted
Morné Engelbrecht	43,188	33,333,333	2014
Tracy Bragg (i)	3,240	2,500,000	2015
Catherine Costello	12,960	2,500,000	2015
Justin Haines (ii)	1,080	2,500,000	2015
Stuart MacKenzie (iii)	-	-	-
Cliff Mallett	12,960	2,500,000	2015
Terry Moore	12,960	2,500,000	2015
TOTALS	**86,388**	**45,833,333**	

(i) Tracy Bragg ceased to be a KMP upon termination on 30 September 2015
(ii) Justin Haines ceased to be a KMP upon termination on 14 August 2015
(iii) Stuart MacKenzie commenced as General Counsel on 27 November 2015 on a casual basis.
(iv) 33,333,333 options and 12,500,000 performance rights were forfeited as a result of failure to meet performance hurdles.

Remuneration Report (Audited)

Equity Instruments held by Key Management Personnel

The tables on the following pages show the number of:

- options or performance rights over ordinary shares in the Company, and
- shares in the Company.

that were held during the financial year by Key Management Personnel of the Consolidated Group, including their close family members and entities related to them.

(a) Option Holdings held Directly and Indirectly by Directors

2017	Balance at 1 Jul 2016	Granted as Remuneration	Options Forfeited	Net Change Other (vi)	Balance at 30 Jun 17	Total Vested 30 Jun 17	Total Exercisable 30 Jun 17	Total Unexercisable 30 Jun 17
Peter Hogan	220,000	-	(220,000)	-	-	-	-	-
George Su	-	-	-	-	-	-	-	-
Huihai Zhuang	171,818,615	-	(171,818,615)	-	-	-	-	-
Helen Garnett (i)	188,551	-	(188,551)	-	-	-	-	-
Chris Rawlings (ii)	3,950,000	-	(3,950,000)	-	-	-	-	-
Louis Rozman (iii)	35,075,000	-	(75,000)	(35,000,000)	-	-	-	-
Morné Engelbrecht (iv)	9,470,534	-	(355,093)	(9,115,441)	-	-	-	-
Kerry Parker (v)	-	-	-	-	-	-	-	-
TOTAL	**220,722,700**	**-**	**(176,607,259)**	**(44,115,441)**	**-**	**-**	**-**	**-**

(i) Helen Garnett ceased as Director on 13 March 2017.
(ii) Chris Rawling ceased as Director on 9 March 2017.
(iii) Louis Rozman ceased as Director on 10 October 2016. Indirect Holding of 35,000,000 represents Pacific Road related entities. Louis Rozman was an employee and Director of some Pacific Road Capital entities at time of being Director of the Company. While Mr Rozman had no power to exercise or control the exercise of these options, they are disclosed as a result of the Pacific Road Capital entities being party to the $10 million Convertible Note with Carbon Energy Limited which gave rise to the issue of options.
(iv) Morné Engelbrecht ceased as Director on 12 August 2016.
(v) Kerry Parker was appointed 1 September 2016 and resigned as Managing Director on 5 April 2017.
(vi) Includes impact from ceasing to be a Director / Key Management Personnel.

2016	Balance at 1 Jul 2015	Granted as Remuneration	Options Forfeited	Net Change Other	Balance at 30 Jun 16	Total Vested 30 Jun 16	Total Exercisable 30 Jun 16	Total Unvested 30 Jun 16
Chris Rawlings	3,950,000	-	-	-	3,950,000	3,950,000	3,950,000	-
Morné Engelbrecht	44,417,867	-	(34,947,333)	-	9,470,534	9,470,534	9,470,534	-
Helen Garnett	188,551	-	-	-	188,551	188,551	188,551	-
Peter Hogan	220,000	-	-	-	220,000	220,000	220,000	-
Louis Rozman (i)	44,720,845	-	(9,645,845)	-	35,075,000	35,075,000	35,075,000	-
Huihai Zhuang (ii)	-	-	-	171,818,615	171,818,615	171,818,615	171,818,615	-
George Su (iii)	-	-	-	-	-	-	-	-
TOTAL	**93,497,263**	**-**	**(44,593,178)**	**171,818,615**	**220,722,700**	**220,722,700**	**220,722,700**	**-**

(i) Indirect Holding (35,000,000) represents Pacific Road Resources Funds; Louis Rozman is an employee and Director of some Pacific Road Capital entities. While Mr Rozman has no power to exercise or control the exercise of these options, they are disclosed as a result of the Pacific Road Capital entities being party to the $10 million Convertible Note with Carbon Energy Limited which gave rise to the issue of options.
(ii) Huihai Zhuang commenced as a Director on 29 October 2015.
(iii) George Su was appointed as an alternative Director to Huihai Zhuang on 4 December 2015.

Directors' Report

Remuneration Report (Audited)

Equity Instruments held by Key Management Personnel (continued)

(b) Option Holdings held Directly and Indirectly by Other Key Management Personnel

2017	Balance at 1 Jul 2016	Granted as Remuneration	Options Forfeited	Net Change Other (iii)	Balance at 30 Jun 17	Total Vested 30 Jun 17	Total Exercisable 30 Jun 17	Total Unexercisable 30 Jun 17
Catherine Costello (i)	229,190	-	-	(229,190)	-	-	-	-
Stuart Mackenzie	-	-	-	-	-	-	-	-
Cliff Mallett	3,371,963	-	(3,175,487)	-	196,476	196,476	196,476	-
Terry Moore (ii)	3,009,168	-	(1,815,249)	-	1,193,919	1,193,919	1,193,919	-
TOTAL	**6,610,321**	**-**	**(4,990,736)**	**(229,190)**	**1,390,395**	**1,390,395**	**1,390,395**	-

(i) Catherine Costello ceased to be a KMP upon termination on 1 May 2017.
(ii) Terry Moore ceased to be a KMP subsequent to year end upon resignation on 8 September 2017.
(iii) Includes impact from ceasing to be a Director / Key Management Personnel.

2016	Balance at 1 Jul 2015	Granted as Remuneration	Options Forfeited	Net Change Other(i)(ii)	Balance at 30 Jun 16	Total Vested 30 Jun 16	Total Exercisable 30 Jun 16	Total Unexercisable 30 Jun 16
Tracy Bragg (i)	3,672,186	-	(2,500,000)	(1,172,186)	-	-	-	-
Catherine Costello	2,729,190	-	(2,500,000)	-	229,190	229,190	229,190	-
Justin Haines(ii)	6,373,153	-	(3,360,000)	(3,013,153)	-	-	-	-
Stuart MacKenzie (iii)	-	-	-	-	-	-	-	-
Cliff Mallett	5,871,963	-	(2,500,000)	-	3,371,963	3,371,963	3,371,963	-
Terry Moore	6,119,168	-	(3,110,000)	-	3,009,168	3,009,168	3,009,168	-
TOTAL	**24,765,660**	**-**	**(13,970,000)**	**(4,185,339)**	**6,610,321**	**6,610,321**	**6,610,321**	**-**

(i) Tracy Bragg ceased to be a KMP upon termination on 30 September 2015.
(ii) Justin Haines ceased to be a KMP upon termination on 14 August 2015.
(iii) Stuart MacKenzie commenced as General Counsel on 27 November 2015 on a casual basis.

Directors' Report

Remuneration Report (Audited)

Equity Instruments held by Key Management Personnel (continued)

(c) Share Holdings held Directly and Indirectly by Directors

2017	Balance at 1 Jul 2016	Options Exercised	Granted as Remuneration	Renounceable Rights Issue	Net Change Other (vi)	Disposal	Balance at 30 Jun 17
Peter Hogan	750,000	-	-	-	-	-	750,000
George Su	-	-	-	-	-	-	-
Huihai Zhuang	514,760,847	-	-	-	-	-	514,760,847
Helen Garnett (i)	716,306	-	-	-	(716,306)	-	-
Chris Rawlings (ii)	9,100,000	-	-	-	(9,100,000)	-	-
Louis Rozman (iii)	162,084,521	-	-	-	(162,084,521)	-	-
Morné Engelbrecht (iv)	4,546,109	-	-	-	(4,546,109)	-	-
Kerry Parker (v)	-	-	-	-	-	-	
TOTAL	**691,957,783**	**-**	**-**	**-**	**(176,446,936)**	**-**	**515,510,847**

(i) Helen Garnett ceased as Director on 13 March 2017.
(ii) Chris Rawling ceased as Director on 9 March 2017.
(iii) Louis Rozman ceased as Director on 10 October 2016. Indirect Holding of 161,607,249 shares represents Pacific Road related entities. Louis Rozman wais an employee and Director of some Pacific Road Capital entities at time of being a Director of the Company. While Mr Rozman had no power to exercise or control the disposal of these share, they are disclosed as a result of the Pacific Road Capital entities being party to the $10 million Convertible Note with Carbon Energy Limited which gave rise to the issue of options.
(iv) Morné Engelbrecht ceased as Director on 12 August 2016.
(v) Kerry Parker was appointed 1 September 2016 and resigned as Managing Director on 5 April 2017.
(vi) Includes impact from cessing to be a Director / Key Management Personnel.

2016	Balance at 1 Jul 2015	Granted as remuneration	Renounceable Rights Issue	Net Change Other	Balance at 30 Jun 16
Chris Rawlings	7,150,000	-	1,950,000	-	9,100,000
Morné Engelbrecht	4,546,109	-	-	-	4,546,109
Helen Garnett	665,652	-	50,654	-	716,306
Peter Hogan	600,000	-	150,000	-	750,000
Louis Rozman(i)	123,744,483	-	102,272	38,237,766	162,084,521
Huihai Zhuang (ii)	-	-	219,097,104	295,663,743	514,760,847
George Su (iii)	-	-	-	-	-
TOTAL	**136,706,244**	**-**	**221,350,030**	**333,901,509**	**691,957,783**

(i) Includes direct holding of 477,272 shares and indirect holding of 161,607,249 shares. The Indirect holding represents Pacific Road Resources Funds; Louis Rozman is an employee and Director of some of Pacific Road Capital entities. While Mr Rozman has no power to exercise or control the disposal of these shares, they are disclosed as a result of the Pacific Road entities being party to the $10 million Convertible Note with Carbon Energy Limited.
(ii) Huihai Zhuang commenced as a Director on 29 October 2015.
(iii) George Su was appointed as an alternate Director to Huihai Zhuang on 4 December 2015.

Directors' Report

Remuneration Report (Audited)

Equity Instruments held by Key Management Personnel (continued)

(d) Share Holdings held Directly and Indirectly by Other Key Management Personnel

2017	Balance at 1 Jul 2016	Options Exercised	Granted as remuneration	Renounceable Rights Issue	Net Change Other (iii)	Disposal	Balance at 30 Jun 17
Catherine Costello	498,659	-	-	-	(498,659)	-	-
Stuart Mackenzie	-	-	-	-	-	-	-
Cliff Mallett	19,609,607	-	-	-	-	-	19,609,607
Terry Moore	4,967,912	-	-	-	-	-	4,967,912
TOTAL	**25,076,178**	-	-	-	**(498,659)**	-	**24,577,519**

(i) Catherine Costello ceased to be a KMP upon termination on 1 May 2017.
(ii) Terry Moore ceased to be a KPM subsequent to year end upon resignation on 8 September 2017.
(iii) Includes impact from cessing to be a Director / Key Management Personnel.

2016	Balance at 1 Jul 2015	Options Exercised	Granted as remuneration	Net Change Other(i)(ii)	Disposal	Balance at 30 Jun 16
Tracy Bragg (i)	2,250,378	-	-	(1,050,378)	(1,200,000)	-
Catherine Costello	698,659	-	-	-	(200,000)	498,659
Justin Haines (ii)	500,000	-	-	(500,000)	-	-
Stuart MacKenzie (iii)	-	-	-	-	-	-
Cliff Mallett (iv)	19,609,607	-	-	-	-	19,609,607
Terry Moore	4,967,912	-	-	-	-	4,967,912
TOTAL	**28,026,556**	**-**	**-**	**(1,550,378)**	**(1,400,000)**	**25,076,178**

(i) Tracy Bragg ceased to be a KMP upon termination on 30 September 2015.
(ii) Justin Haines ceased to be a KMP upon termination on 14 August 2015.
(iii) Stuart MacKenzie commenced as General Counsel on 27 November 2015 on a casual basis.
(iv) These shares are held indirectly through a self managed superannuation fund.

Loans to Key Management Personnel

In 2017 and 2016 there were no loans to Key Management Personnel.

Directors' Report

Remuneration Report (Audited)

Other Transactions with Key Management Personnel

Huihai Zhuang (Non-Executive Director) is a Director of Kam Lung Investment Development Company. Ltd (Kam Lung) which is a major shareholder of the Company. On 9 March 2017, and as amended in May 2017, certain entities within the Consolidated Group entered into an interim loan agreement with Kam Lung (Kam Lung interim loan facility) with a total facility limit of $1,740,000, as part of the DOCA arrangement. At 30 June 2017, a total of $1,510,000 is drawn under the Kam Lung interim loan facility. A further $200,000 was made available under the DOCA to the Administrators pursuant to the Deed of Indemnity between the Administrators and the Deed Proponent in respect of the Administrators' remuneration.

George Su (Non-Executive Director, Interim Executive Director from 19 July 2017) is a Director of Silk Road Corporate Finance Pty Ltd and was Mr Zhuang's Alternate Director until 9 March 2017 upon when Mr Su was appointed Non-Executive Director. Amounts paid to Silk Road Corporate Finance Pty Ltd for Mr Zhuang's services as a Director amount to $10,000 for the year ended 30 June 2017 (2016: $26,957).

Louis Rozman (Non-Executive Director, resigned 10 October 2016) held Directorships in other companies which are shareholders of the Company whilst Mr Rozman was Director of the Company. Amounts paid to Pacific Road Capital Management Holdings Pty Limited for Mr Rozman's services as a Director amounted to $10,000 for the year ended 30 June 2017 (2016: $30,000).

Other related party transactions:

On 22 December 2011 Carbon Energy executed a Convertible Note Facility Agreement with Pacific Road Capital Management Pty Ltd.

The Convertible Note Facility Agreement requires Carbon Energy to pay interest of 5% per annum on the Facility amount. The interest is payable quarterly in arrears and is payable through the issuance of shares in Carbon Energy at the 5 day VWAP for the Shares on the Australian Stock Exchange (ASX) prior to the day a payment is due. Pacific Road may convert all or part of the Facility amount to shares in the Company at any time during the term at a conversion price of $0.14. If the share price exceeds $0.40 for continuous 60 day VWAP period the Company can request the conversion of the Facility in full. The Facility repayment date is 18 January 2017 and any part of the Facility amount not converted into shares on that date is repayable in cash by the Company on that date. . As the Pacific Road Facility and residual accrued interest remained outstanding at repayment date 18 January 2017 and 30 June 2017, further interest on overdue amounts have been accrued at a rate of 10% per annum for the period.

The 35,000,000 options issued with a strike price at a 25% premium over the term of the Pacific Road Facility agreement expired on 18 January 2017 and 25 February 2017.

Shares Under Option

At the date of this report, the unissued ordinary shares of Carbon Energy Limited under option are as follows:

Grant Date	No. of Options	Exercise Price	Vesting Date	Expiry Date
26/08/2014 (i)	3,953,516	$0.0301	26/08/2015	25/08/2017
26/08/2014 (i)	5,541,564	$0.0301	26/08/2015	25/08/2017

(i) Options granted as remuneration to the Key Management Personnel during 2014 financial year.

Directors' Report

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2017 has been received and can be found on page 30 of the Annual Report.

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

On behalf of the Directors

Peter A. Hogan

Mr Peter Hogan
Chairman

Brisbane, Queensland
5 October 2017

Grant Thornton

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Auditor's Independence Declaration to the Directors of Carbon Energy Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Carbon Energy Limited for the year ended 30 June 2017, I declare that, 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.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Cameron Smith

CDJ Smith
Partner – Audit & Assurance

Brisbane, 5 October 2017

Contents

Financial Report

Consolidated Statement of Profit or Loss and Other Comprehensive Income

		CONSOLIDATED GROUP	
	Notes	**2017 $**	**2016 $**
Revenue and other income			
Technology service fee revenue	2	50,000	189,069
Other income	2	2,553,685	2,560,429
Total revenue and other income		**2,603,685**	**2,749,498**
Employee benefits expense	3	(2,382,025)	(3,066,278)
Administration, legal and corporate costs		(2,047,314)	(1,680,457)
Consultancy costs		(411,032)	(546,111)
Operating expenditure		(305,981)	(314,013)
Share-based payments	3,15	-	(75,588)
Depreciation expense	3	(141,342)	(183,052)
Finance costs	3	(2,129,759)	(1,752,442)
Movement in fair value of derivatives	5(f)	-	9,020
Impairment expense	3	(34,511,191)	(95,677,350)
Loss before income tax expense		**(39,324,959)**	**(100,536,774)**
Income tax benefit/(expense)	4	-	(8,530)
Net loss for the year		**(39,324,959)**	**(100,545,304)**
Other comprehensive income for the year (net of tax)		-	-
Total comprehensive loss for the year		**(39,324,959)**	**(100,545,304)**
Loss attributable to Owners of the Parent		**(39,324,959)**	(100,545,304)
Total comprehensive loss attributable to Owners of the Parent		**(39,324,959)**	(100,545,304)
Overall Operations			
Basic loss per share (cents per share)	7	(2.17)	(6.64)
Diluted loss per share (cents per share)	7	(2.17)	(6.64)

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

Financial Report

Consolidated Statement of Financial Position

AS AT 30 JUNE 2017

		CONSOLIDATED GROUP	
	Notes	**2017 $**	**2016 $**
Assets			
Current Assets			
Cash and cash equivalents	5(a)	79,435	2,208,071
Trade and other receivables	5(b)	1,287,204	177,821
Other current assets	5(c)	69,140	78,027
Total Current Assets		**1,435,779**	**2,463,919**
Non-Current Assets			
Trade and other receivables	5(b)	244,553	267,553
Intangible assets	6(b)	13,509,367	47,968,814
Property, plant & equipment	6(e)	610,809	692,707
Total Non-Current Assets		**14,364,729**	**48,929,074**
Total Assets		**15,800,508**	**51,392,993**
Liabilities			
Current Liabilities			
Trade and other payables	5(d)	1,566,301	643,270
Loans and borrowings	5(e)	1,710,000	-
Financial liabilities	5(f)	10,000,000	9,210,047
Provisions	6(h)	1,228,679	864,031
Total Current Liabilities		**14,504,980**	**10,717,348**
Non Current Liabilities			
Provisions	6(h)	2,337,807	2,898,203
Total Non Current Liabilities		**2,337,807**	**2,898,203**
Total Liabilities		**16,842,787**	**13,615,551**
Net Assets		**(1,042,279)**	**37,777,442**
Equity			
Issued Capital	8	244,731,404	244,226,148
Reserves	9	20,003,591	20,003,609
Accumulated losses		(265,777,274)	(226,452,315)
Total Equity		**(1,042,279)**	**37,777,442**

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

Financial Report

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Issued Capital	Options Reserve	Share-Based Payments Reserve	Other Reserve	Accumulated Losses	Total
		$	$	$	$	$	$
Balance at 1 July 2015		238,614,976	1,650,406	16,176,025	2,101,590	(125,907,011)	132,635,986
Shares issued during the year	8	5,908,206	-	-	-	-	5,908,206
Transaction Costs	8	(297,034)	-	-	-	-	(297,034)
Movement in share option reserve on recognition of share based payments	9	-	-	75,588	-	-	75,588
Losses attributable to member of parent entity		-	-	-	-	(100,545,304)	(100,545,304)
Balance at 30 June 2016		**244,226,148**	**1,650,406**	**16,251,613**	**2,101,590**	**(226,452,315)**	**37,777,442**
Balance at 1 July 2016		**244,226,148**	**1,650,406**	**16,251,613**	**2,101,590**	**(226,452,315)**	**37,777,442**
Shares issued during the year	8	526,339	-	-	-	-	526,339
Exercise of options		-	(18)	-	-	-	(18)
Transaction costs	8	(21,083)	-	-	-	-	(21,083)
Movement in share option reserve on recognition of share based payments	9	-	-	-	-	-	-
Losses attributable to member of parent entity		-	-	-	-	(39,324,959)	(39,324,959)
Balance at 30 June 2017		**244,731,404**	**1,650,388**	**16,251,613**	**2,101,590**	**(265,777,274)**	**(1,042,279)**

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

Financial Report

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2017

		CONSOLIDATED GROUP	
	Notes	**2017 $**	**2016 $**
Cash flows from Operating activities			
Receipts from customers		-	69,463
Payments to suppliers and employees (GST inclusive)		(5,846,510)	(6,129,129)
Receipt of government grants		1,384,419	2,490,344
Interest received		42,978	60,370
Taxes paid		-	(8,530)
Net GST receipts from Australian Taxation Office		273,523	267,871
Other receipts		141,271	6,132
Net cash flows used in operating activities	5(a)	**(4,004,319)**	**(3,243,479)**
Cash flows from Investing Activities			
Payments for property, plant and equipment		(59,444)	(41,568)
Proceeds from disposal of property, plant and equipment		-	3,819
Payments for exploration & evaluation costs		-	(88,423)
Payments for intangible assets		(18,479)	(38,385)
Net cash flows used in investing activities		**(77,923)**	**(164,557)**
Cash flows from Financing Activities			
Proceeds from issues of shares		400,000	5,406,836
Proceeds from short term loan facility		1,710,000	-
Repayment of short term loan facility		-	(1,165,937)
Term facility costs		(135,310)	(16,493)
Capital raising and financing costs		(21,084)	(297,034)
Net cash flows provided by financing activities		**1,953,606**	**3,927,372**
Net (decrease) / increase in cash and cash equivalents held		(2,128,636)	519,335
Cash and cash equivalents at the beginning of the financial year		2,208,071	1,688,736
Cash and cash equivalents at the end of the financial year	5(a)	**79,435**	**2,208,071**

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Financial Report

Notes to the Consolidated Financial Statements

Group Performance

1. BASIS OF PREPARATION

The consolidated financial statements comprise that of the Consolidated Group, being Carbon Energy Limited (Company) and its controlled entities.

The consolidated financial statements are presented in Australian dollars, unless otherwise stated.

The consolidated financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at re-valued amounts or fair values as described in the notes. Historical cost is generally based on the fair values of the consideration given in exchange for assets.

(a) Going Concern

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

An amended Deed of Company Arrangement (DOCA) was announced on 15 May 2017 and was approved by creditors on 23 May 2017. The DOCA provided for a recapitalisation of the Company including a $3.85 million equity injection, an $8.3 million five year Convertible Note and a $1 million unsecured loan from the Pacific Road Group. Subsequent to current year end, on 18 July 2017, the transactions contemplated under the DOCA were approved by shareholders.

The ability to continue as a going concern is also dependent on securing funds from a range of sources and opportunities including:

- receipt of R&D cash incentives;
- receipt of fees for services provided to the JinHong Joint Venture in China; and
- further licensing and services relating to the Company's keyseam UCG technology.

Factors which can influence these opportunities include, but are not limited to, progress of current development and licensing activities and general market sentiment.

Notwithstanding this, as a technology development and exploration company with start-up projects and a dependency upon continuing support from current shareholders and financiers and on securing additional sources of funds, should the Consolidated Group not receive the forecast cash inflows and additional funding referred to above there are material uncertainties as to whether the Consolidated Group will be able to continue as a going concern and therefore, whether it will 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 and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Consolidated Group not continue as a going concern.

(b) Principles of Consolidation

A controlled entity is any entity over which the Company if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

A list of controlled entities is contained in Note 11 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the Consolidated Group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the Consolidated Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Notes to the Consolidated Financial Statements
Group Performance

1. BASIS OF PREPARATION (continued)

(c) Critical Accounting Estimates and Judgements

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information that they believe to be reasonable under the circumstances. Estimates assume a reasonable expectation of future events, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. Estimates are based on current trends and economic data, obtained both externally and within the Consolidated Group. Actual results may differ from these estimates.

The estimates and judgements which involve a higher degree of complexity or that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period are addressed in the following notes:

Note 2	Revenue and other income (recognition of revenue)
Note 6(a)	Non financial assets and liabilities (estimated impairment of assets)
Note 6(e)	Non financial assets and liabilities (estimate of the useful life of property, plant and equipment)
Note 6(h)	Non financial assets and liabilities (provision for rehabilitation)
Note 15	Share based payments

2. REVENUE AND OTHER INCOME

	2017 $	2016 $
Revenue		
Technology service fee revenue	50,000	189,069
	50,000	**189,069**
Other income		
Government grants	2,382,394	2,490,344
Interest received	30,019	60,135
Other income	141,271	9,950
	2,553,685	**2,560,429**

Recognition and Measurement

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied stated net of discounts, returns and GST.

The Consolidated Group’s transactions may comprise multiple deliverables over a period of time and in these instances revenue recognition criteria are applied to each separately identifiable component in order to reflect the substance. The Consolidated Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Consolidated Group’s activities, as described below.

Technology Service Fees
The Consolidated Group provides technology services to customers. Where the delivery of services are provided on a fixed price basis, the related revenue is recognised in the accounting period in which the services are rendered by reference to the stage of completion and assessed on the basis of the actual service provided as a proportion of the total services to be provided unless the outcome of the contract cannot be reliably estimated. Where it is probable that a loss will arise from a contract, the excess of total costs over revenue is recognised as an expense immediately. Otherwise technology services fees are provided on a cost plus an agreed margin basis.

Government Grants
Grants from the Government are recognised at their fair value where the amount of the grant can be reliably measured and when it is probable that future economic benefits will flow to the entity. During the current year ended 30 June 2017, the Consolidated Group recognised $1,384,419 of grants received relating to expenses from the prior year and a further $997,975 receivable at year end in relation to current year expenses.

Where the grants relate to recognised expenses, the grant is presented as other income. Grants related to expenditure recognised as assets are presented in the statement of financial position as a deduction against the asset carrying value.

Notes to the Consolidated Financial Statements
Group Performance

2. REVENUE AND OTHER INCOME (continued)

Government Grants (continued)

The Consolidated Group receives a research and development (R&D) tax incentive rebate from the Australian Taxation Office and an export market development grant (EMDG) from Austrade. The R&D tax incentive rebate is equivalent to 43.5% (2016: 45%) of eligible research and development expenditure while the EMDG scheme reimburses up to 50% of eligible export promotion expenses.

Interest Received
Interest revenue is recognised using the effective interest rate method.

Critical Accounting Estimates

The provision of technology service fee services to customers requires judgement in assessing both the components of contracted services and an assessment on the stage of completion of each component. The technology service fees earned during the current year were provided on a cost plus agreed margin.

3. EXPENSES

	Note	2017 $	2016 $
Depreciation			
Motor vehicles	6(e)	-	6,326
Plant & equipment	6(e)	141,342	176,726
	6(e)	141,342	183,052
Impairment			
UCG Intangible asset[1]	6(b)	34,511,191	-
Trade receivables	5(b)	-	10,480
Construction work in progress	6(c)	-	2,555,334
UCG Panel assets	6(d)	-	1,785,796
Property, plant and equipment	6(e)	-	-
Deferred exploration and evaluation costs	6(f)	-	90,465,414
Chile Project asset	6(g)	-	860,326
		34,511,191	95,677,350
Employment expenses			
Remuneration and on-costs		2,200,293	2,872,578
Superannuation expense		181,732	193,700
		2,382,025	3,066,278
Share based payments expense			
Share based payments	15	-	75,588
		-	75,588
Finance costs			
Interest expense		743,730	519,774
Finance facility fees		-	4,893
Refinancing expenses		567,475	-
Pacific Road convertible note accretion expense	5(f)	789,953	1,180,372
Rehabilitation provision accretion expense		27,286	44,149
Other finance costs		1,315	3,255
		2,129,759	1,752,442
Operating lease rental expense		426,467	404,284

[1] BDO was appointed independent expert to opine on the proposed transaction under the Deed of Company Arrangement approved by creditors on 9 March 2017. BDO valued the Group's UCG Intangible asset at between $10m and $17m, accordingly the directors have written down the UCG Intangible asset to the mid point of this valuation, resulting in a $34.5m impairment expense.

Notes to the Consolidated Financial Statements

Group Performance

3. EXPENSES (continued)

Recognition and Measurement

Depreciation

Refer to Note 6(e) for details on depreciation.

Impairment

Refer to Note 6(a) for details on impairment.

Employee Benefits

Refer to Note 6(h) for details on employee provisions and Note 15 for details on share based payments and employee superannuation.

Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses and accounted for on a straight line basis in the periods in which they are incurred.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. INCOME TAX

Income Tax recognised in the Consolidated Statement of Profit or Loss

	2017 $	2016 $
Current year tax (benefit)/expense	-	(8,530)
Deferred tax expense	-	-
Prior year tax expense	-	-
Income tax (benefit)/expense	-	**(8,530)**

Reconciliation between tax benefit/(expense) and profit/(loss) before income tax

	2017 $	2016 $
Operating loss before taxation	(39,324,959)	(100,536,773)
Tax benefit at the Australian tax rate of 27.5% (2016: 30%)	10,814,364	30,161,032
Tax effect of amounts which are not taxable in calculating taxable income		
Non-deductible items	(1,019,688)	(3,554,669)
Other deductible items	-	43,915
Net exempt income	655,158	736,763
Non-deductible impairment expense and other	(9,490,577)	(261,047)
Other tax credit not recognised (i)	-	(8,530)
Deferred tax assets not brought to account	(959,257)	(27,125,994)
Income tax benefit/(expense)	**-**	**(8,530)**

(i) Other tax credits not recognised relate to withholding tax paid in China not able to be claimed against Australian Taxable Income.

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4. INCOME TAX (continued)

Deferred Tax Assets

Future income tax benefits not brought to account, the benefits of which will only be realised if the conditions for deductibility set out below occur. An income tax Consolidated Group was formed from 1 July 2008.

	2017 $	2016 $
Balance at the beginning of the year	**97,608,705**	70,456,678
Adjustment to prior year carry forward losses	-	48,306
Impact from change in tax rate	(8,134,059)	-
Temporary differences	(96,449)	(22,273)
Tax losses (after income tax at 27.5% (2016: 30%))	959,257	27,125,994
Deferred tax assets not brought to account	**90,337,454**	**97,608,705**

Recognition and Measurement

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantially enacted by the reporting date.

Deferred tax is accounted for using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of profit or loss and other comprehensive Income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future tax profits will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, when they relate to income taxes levied by the same taxation authority and the Consolidated Group intends to settle its current tax assets and liabilities on a net basis.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Consolidated Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

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Notes to the Consolidated Financial Statements

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5. FINANCIAL ASSETS AND LIABILITIES

Financial assets	Note	Current	Non-current	2017 $ Total	Current	Non-current	2016 $ Total
Cash and cash equivalents							
Cash at bank		79,435	-	79,435	258,071	-	258,071
Short term deposits		-	-	-	1,950,000	-	1,950,000
Total cash and cash equivalents	5(a)	79,435	-	79,435	2,208,071	-	2,208,071
Trade and other receivables							
Trade receivables		1,185,673	-	1,185,673	138,277	-	138,277
Provision for impairment of trade receivable		-	-	-	(10,480)	-	(10,480)
Other receivables		101,531	-	101,531	50,024	-	50,024
Deposits		-	244,553	244,553	-	267,553	267,553
Total trade and other receivables	5(b)	1,287,204	244,553	1,531,757	177,821	267,553	445,374
Other current assets							
Unbilled revenue		25,280	-	25,280	25,121	-	25,121
Prepayments		43,860	-	43,860	52,906	-	52,906
Total other current assets	5(c)	69,140	-	69,140	78,027	-	78,027
Total financial assets		1,435,779	244,553	1,680,332	2,463,919	267,553	2,731,452

Financial liabilities	Note	Current	Non-current	2017 $ Total	Current	Non-current	2016 $ Total
Trade and other payables							
Trade payables		762,793	-	762,793	370,652	-	370,652
Other payables		803,508	-	803,508	272,618	-	272,618
Total trade and other payables	5(d)	1,566,301	-	1,566,301	643,270	-	643,270
Loans and borrowings							
Non-interest bearing loan	5(e)	1,710,000	-	1,710,000	-	-	-
Financial liabilities							
Convertible note facility (secured)	5(f)	10,000,000	-	10,000,000	9,210,047	-	9,210,047
Total financial liabilities		13,276,301	-	13,276,301	9,853,317	-	9,853,317

5(a) Cash and Cash Equivalents

	2017 $	2016 $
Cash and cash equivalents	79,435	2,208,071
Reconciliation of cash flow from operations with loss after income tax		
Loss after income tax	(39,324,959)	(100,545,303)
Adjustments for:		
Depreciation	141,342	183,052
Interest expense	126,027	517,860
Accretion expense (FV discount)	817,239	1,153,766
Share options expensed	-	75,588
Movement in fair value of derivative	-	(9,020)
Impairment of non financial assets	34,511,191	95,666,870
Asset disposal	-	(3,818)
Other	135,603	2
Changes in assets and liabilities:		
(Increase) / Decrease in trade receivables and other current assets	(786,853)	(138,546)
Increase / (Decrease) in trade creditors and accruals	599,124	208,113
Decrease in provisions	(223,034)	(352,042)
Net cash flows used in operating activities	(4,004,319)	(3,243,479)

Notes to the Consolidated Financial Statements
Other Information

5. FINANCIAL ASSETS AND LIABILITIES (continued)

5(a) Cash and Cash Equivalents (continued)

Recognition and Measurement

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

5(b) Trade and Other Receivables

Provision for impairment of trade receivables
There are no provisions for impairment of trade receivables as at current year end (2016: $10,480).

Non-current other receivables are for deposits in relation to the lease of office premises, environmental bonds and a bank credit card facility.

5(c) Other Current Assets

Unbilled revenue includes amounts to be charged to the Beijing JinHong New Energy Development Co.

5(d) Trade and Other Payables

Other payables relates to expenses incurred and not yet invoiced.

5(e) Loans and Borrowings

On 9 March 2017, and as amended in May 2017, certain entities within the Consolidated Group entered into an interim loan agreement with Kam Lung Investment Development Co Ltd (Kam Lung interim loan facility) with a total facility limit of $1,740,000, as part of the DOCA arrangement. At 30 June 2017, a total of $1,510,000 is drawn under the Kam Lung interim loan facility. A further $200,000 was made available under the DOCA to the Administrators pursuant to the Deed of Indemnity between the Administrators and the Deed Proponent in respect of the Administrators' remuneration. Subsequent to current year end, on 18 July 2017, the transactions contemplated under the DOCA were approved by shareholders and the interim loan was repaid.

5(f) Financial Liabilities

	2017 $	2016 $
Opening balance	9,210,047	8,029,675
Accretion	789,953	1,180,372
Closing balance	**10,000,000**	**9,210,047**

The total secured Pacific Road Capital (Pacific Road) convertible note (the Pacific Road Facility) outstanding at 30 June 2017 is $10,000,000.

A reconciliation of the financial liability to the convertible note is as follows:

	2017 $	2016 $
Financial liability as at end of the financial year	10,000,000	9,210,047
Fair value discount to unwind in future periods	-	789,953
Convertible note outstanding as at 30 June	**10,000,000**	10,000,000
Future interest payments at 5% (refer to Note 10(b))	**-**	278,082

The Equity component of $2,101,590 has been credited to equity (Other Reserve). 35,000,000 options were issued with a strike price at a 25% premium over the term of the Pacific Road Facility agreement. These expired on 18 January 2017 and 25 February 2017.

5. FINANCIAL ASSETS AND LIABILITIES (continued)

5(f) Financial Liabilities (continued)

Pacific Road may convert all or part of the Pacific Road Facility amount to shares in the Company at any time during the term at a conversion price of $0.14. If the share price exceeds $0.40 for a continuous 60 day VWAP period the Company can request the conversion of the Pacific Road Facility in full. The Pacific Road Facility repayment date was 18 January 2017 and any part of the Pacific Road Facility amount not converted into shares on that date was repayable in cash by the Company on that date. The Pacific Road Facility is secured by a mortgage over the UCG technology and software transferred from CSIRO to Carbon Energy and 100% of the shares in Carbon Energy (Operations) Pty Limited, the subsidiary that owns the UCG technology and software.

The fair value of the financial liability approximates its carrying value.

Interest on the convertible note facility was paid through the issue of shares up to 29 August 2016 (refer Note 8 Issued Capital) As a result of the Company being under Administration, no shares were able to be issued for the 3 months ending 28 November 2016 or subsequently. As the Pacific Road Facility and residual accrued interest remained outstanding at repayment date 18 January 2017 and 30 June 2017, further interest on overdue amounts have been accrued at a rate of 10% per annum for the period.

During the year the Company worked with Pacific Road to refinance the Pacific Road Facility. On 22 November 2016 the Company and Pacific Road were unable to reach agreement on the refinancing and the Directors appointed Tim Michael and Will Colwell as Administrators. The Administrators sought tenders for either the recapitalisation of the Company and/or an asset sale.

The DOCA approved by creditors on 23 May 2017, provides for a $3.85 million recapitalisation and the establishment of a new $8.3 million Convertible Note Facility with Kam Lung (Kam Lung Convertible Note). Proceeds from the Kam Lung Convertible Note will be used to repay Pacific Road a negotiated $7 million, less $150,000 of refinancing costs, in full and final settlement of the Pacific Road Facility, including accrued interest. Pacific Road will provide a $1 million unsecured, interest free loan to the Company, which shall be repayable upon the meeting of certain conditions as defined under the DOCA, including achieving continuous gasification. Pacific Road will direct the Company to withhold $1 million from the $6.85 million payable to Pacific Road with respect to repayment of the Pacific Road Facility in satisfaction of Pacific Road's obligation to advance the $1 million as part of the DOCA. Subsequent to current year end, on 18 July 2017, the transactions contemplated under the DOCA were approved by shareholders.

5(g) Accounting Policies - Financial Instruments

Trade dated accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments, incorporating financial assets and liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Financial Assets

Financial Assets at Fair Value through Profit and Loss
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: *Recognition and Measurement of Financial Instruments*. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the profit and loss component of the statement of profit or loss and other comprehensive income in the period in which they arise.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Notes to the Consolidated Financial Statements
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5. FINANCIAL ASSETS AND LIABILITIES (continued)

5(g) Accounting Policies - Financial Instruments (continued)

Impairment of Financial Instruments
At each reporting date, the Consolidated Group assess whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the profit and loss component of the statement of profit or loss and other comprehensive income.

De-recognition of Financial Assets
Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Financial instruments incorporating financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

Fair Value
Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arms length transactions, reference to similar instruments and option pricing models.

Financial Liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Short- term liability includes secured loan facilities to assist with short term working capital.

The liability is initially measured at fair value, net of transaction costs and subsequently re-measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method calculates the amortised cost of the financial liability and allocates interest expense over the relevant period based on the discount rate of estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Compound Instruments
The component parts of compound instruments (convertible bonds) issued by the Consolidated Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion options that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Consolidated Group’s own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recognised as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument’s maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently re-measured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised.

No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

De-recognition of Financial Liability
The Consolidated Group derecognises financial liabilities when, and only when the Consolidated Group’s obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

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6. NON FINANCIAL ASSETS AND LIABILITIES

30 June 2017	Note	Opening balance	Additions	Impairment loss	Change in rehabilitation provision	Other movements	Closing balance
Technology asset							
Intangible assets	6(b)	**47,968,814**	**51,744**	**(34,511,191)**	**-**	**-**	**13,509,367**
Queensland assets							
Construction work in progress	6(c)	-	-	-	-	-	-
UCG panel assets	6(d)	-	-	-	-	-	-
Property, plant and equipment	6(e)	692,707	59,444	-	-	(141,342)	610,809
Deferred exploration and evaluation costs	6(f)	-	-	-	-	-	-
		692,707	**59,444**	**-**	**-**	**(141,342)**	**610,809**
Other non-financial assets and liabilities							
Other non current asset	6(g)	-	-	-	-	-	-
Current provisions	6(h)	864,031	128,751	-	420,443	(184,546)	1,228,679
Non-current provisions	6(h)	2,898,203	23,222	-	(578,646)	(4,972)	2,337,807
		3,762,234	**151,973**	**-**	**(158,203)**	**(189,518)**	**3,566,486**
Total non-financial assets and liabilities		**52,423,755**	**263,161**	**(34,511,191)**	**(158,203)**	**(330,860)**	**17,686,662**

30 June 2016	Note	Opening balance	Additions	Impairment loss	Change in rehabilitation provision	Other movements	Closing balance
Technology asset							
Intangible assets	6(b)	**47,902,732**	**66,082**	**-**	**-**	**-**	**47,968,814**
Queensland assets							
Construction work in progress	6(c)	2,555,334	-	(2,555,334)	-	-	-
UCG panel assets	6(d)	1,786,888	-	(1,785,796)	(1,092)	-	-
Property, plant and equipment	6(e)	834,191	41,568	-	-	(183,052)	692,707
Deferred exploration and evaluation costs	6(f)	90,376,990	77,944	(90,454,934)	-	-	-
		95,553,403	**119,512**	**(94,796,064)**	**(1,092)**	**(183,052)**	**692,707**
Other non-financial assets and liabilities							
Other non current asset	6(g)	860,326	-	(860,326)	-	-	-
Current provisions	6(h)	386,699	202,209	-	579,413	(304,290)	864,031
Non-current provisions	6(h)	3,727,577	26,967	-	(856,341)	-	2,898,203
		4,974,602	**229,176**	**(860,326)**	**(276,928)**	**(304,290)**	**3,762,234**
Total non-financial assets and liabilities		**148,430,737**	**414,770**	**(95,656,390)**	**(278,020)**	**(487,342)**	**52,423,755**

6(a) Impairment of Tangible and Intangible Assets other than Goodwill

Recognition and Measurement

At the end of each reporting period, the Consolidated Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets, other than goodwill, that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Intangible Assets
Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired.

6. NON FINANCIAL ASSETS AND LIABILITIES (continued)

6(a) Impairment of Tangible and Intangible Assets other than Goodwill (continued)

Tangible Assets
At the end of each reporting period, tangible assets are assessed for events or changes in circumstances that indicate that the carrying amount may not be recoverable. Deferred exploration and evaluation costs are assessed under AASB 6: *Exploration for and Evaluation of Mineral Resources*. All other assets are assessed under AASB 136: *Impairment of Assets*.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Critical Accounting Estimates

The Consolidated Group assesses impairment at each reporting date by evaluating conditions specific to the Consolidated Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. The value-in-use and/or fair value, less cost of disposal calculations performed in assessing recoverable amounts incorporate a number of key estimates.

UCG Intangible Assets
The value in use cash flows have been estimated for each potential project based on the technology, licence and service fees and ongoing royalty contractual arrangements entered into or contracts under negotiation to date. The growth factor is based on known and potential projects expected to progress to a commercial scale.

Deferred Exploration and Evaluation Assets
The deferred exploration and evaluation assets are assessed for impairment indicators using guidance in AASB 6 which are deemed appropriate for the Group’s stage of development. If an impairment trigger arose the recoverable value would be calculated by modelling the fair value less cost of disposal of the Blue Gum Gas Project. In the prior year ended 30 June 2016, the Blue Gum Gas Project was fully impaired and the Company’s Gross 100% Syngas Energy Reserves were reclassified to 2C Contingent Resource.

Detailed information about each of these estimates and judgements is included in Note 6(b) and 6(f) respectively.

6(b) Intangible Assets

Recognition and Measurement

Research and Development
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

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

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

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6. NON FINANCIAL ASSETS AND LIABILITIES (continued)

6(b) Intangible Assets (continued)

Recognition and Measurement (continued)

UCG Intangible Asset
A 'know-how' intangible asset was recognised for the first time in the 2011 financial year and relates to transfers from Mine Development costs and Property, Plant and Equipment from the Bloodwood Creek trial. This balance also includes design and engineering costs in relation to the modification of carburettors and other associated work to enable the engines to run on syngas which resulted in significant technological know-how gains.

A further $51,744 (2016: $88,424) was added to the 'know-how' intangible asset during the 2017 financial year for ongoing patent costs following achievement of 'Proof of Concept' of the Consolidated Group's keyseam UCG Technology.

Internally generated UCG intangible assets recognised by the Consolidated Group have an indefinite life and are not amortised. Each period, the useful life of the intangible asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. The Consolidated Group has assessed that the asset is regenerative and knowledge continues to build. Such assets are tested for impairment in accordance with the policy stated in Note 6(a).

Impairment Test for Indefinite Life Intangible Assets
The recoverable amount of the UCG intangible asset has been determined based on a value in use calculation using a pre-tax discount rate of 17.5% (2016: 20.0%). The value in use cash flows have been estimated by management based on the technology, licence and service contractual arrangements entered into to date or contemplated and the estimated cash inflows expected to be generated over the life of such agreements. The underlying projects currently reflect an estimated project life of 25 years which is consistent with the expected scale of commercial projects of this nature. Growth in the cash flows assumes a number of international licensing projects progress to commercial scale. In addition, for China opportunities, it has been assumed that the JinHong joint venture (JinHong JV) will complete a demonstration project and obtain the exclusive right to license keyseam in China. The cash flow models assume the JinHong JV licenses one project before exclusivity is obtained and three projects once exclusivity is achieved. Under the terms of the JinHong JV agreement, the Consolidated Group receives 90% of licence fees during the non-exclusive period and has a 30% interest once the JinHong JV has the exclusive rights. The Consolidated Group receives 100% of the technical service fees from all China projects. All China projects have been allocated probability weightings of 100%. The recoverable value is sensitive to significant changes in these probability weightings, the amount of capital required to complete the demonstration projects and the upside for value ascribed to de-risking future projects as a result of successful completion of the first demonstration project. Similarly the net present value is sensitive to the number of projects and the timeframe for completing these projects. Both a low case and high case have been calculated based around these sensitivities and the Company has ascribed an equal weighting to both scenarios. As a consequence of the reduction in projects assumed, both in China and internationally, the recoverable amount of the UCG intangible asset was less than its carrying amount and consequently the UCG intangible asset was impaired.

BDO Corporate Finance (QLD) Ltd (BDO) was appointed as independent expert to opine on the proposed transaction under the DOCA. BDO valued the Consolidated Group's UCG intangible asset at between $10 million and $17 million. Accordingly, the Directors have written down the UCG intangible asset to the mid-point of this valuation, resulting in a $34.5 million impairment expense during the current year.

De-recognition of Intangible Assets
An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

6(c) Construction Work in Progress

Construction work in progress related to Panel 3 at Bloodwood Creek, Dalby in Queensland. This asset was impaired at prior year end 30 June 2016. Refer to Note 6(a) for detailed information.

6(d) UCG Panel Assets

Recognition and Measurement

UCG Panel Assets include costs transferred from construction work-in-progress once technical feasibility and commercial viability for a particular Panel can be demonstrated. When production commences, the accumulated costs for the relevant area of interest (for each Panel) are amortised over the life of the area according to the rate of depletion of the economically recoverable gas assets.

This asset was impaired at prior year ended 30 June 2016. Refer to Note 6(a) for detailed information.

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6. NON FINANCIAL ASSETS AND LIABILITIES (continued)

6(e) Property, Plant and Equipment

	Freehold Land	Motor Vehicles	Property, Plant & Equipment	Total
	$	$	$	$
At 30 June 2017				
Cost	408,016	82,246	1,282,078	1,772,340
Accumulated depreciation	-	(82,246)	(1,079,285)	(1,161,531)
Net book amount	**408,016**	**-**	**202,793**	**610,809**
Movement:				
Opening net book amount	408,016	-	284,691	692,707
Additions	-	-	59,444	59,444
Disposals				
Depreciation expense	-	-	(141,342)	(141,342)
Closing net book amount	**408,016**	**-**	**202,793**	**610,809**
At 30 June 2016				
Cost	408,016	82,246	1,262,634	1,752,896
Accumulated Depreciation	-	(82,246)	(977,943)	(1,060,189)
Net book amount	**408,016**	**-**	**284,691**	**692,707**
Movements:				
Opening net book amount	408,016	6,326	419,849	834,191
Additions	-	-	41,568	41,568
Depreciation expense	-	(6,326)	(176,726)	(183,052)
Closing net book amount	**408,016**	**-**	**284,691**	**692,707**

Recognition and Measurement

Carrying Value

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The cost of plant and equipment constructed within the Consolidated Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

The carrying amount of plant and equipment is reviewed for indicators of impairment bi-annually to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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 Consolidated Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation

The cost of all plant and equipment is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Motor vehicles	22.50%
Plant and equipment (includes furniture and fittings)	7.5-50%
Water monitoring assets	4%
Site infrastructure	4%
Bloodwood Creek Trial plant and equipment assets	4%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the profit and loss component of the statement of profit or loss and other comprehensive income.

6. NON FINANCIAL ASSETS AND LIABILITIES (continued)

6(e) Property, Plant and Equipment (continued)

Critical Accounting Estimates

The estimation of the useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life.

6(f) Deferred Exploration and Evaluation Costs

Recognition and Measurement

Exploration and evaluation expenditure incurred is either written off as incurred or accumulated in respect of each identifiable area of interest. Costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area, sale of the respective areas of interest or where activities in the area have not yet reached a stage, which permits reasonable assessment of the existence of economically recoverable gas assets.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest will be transferred to the relevant class of asset and depreciated over the life of the area according to the rate of depletion of the economically recoverable gas assets.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

This asset was impaired at prior year end 30 June 2016. Refer to Note 6(a) for detailed information.

6(g) Other Non-Current Asset

This asset relates to capitalised costs for a proposed UCG project in Chile. This asset was impaired at prior year end 30 June 2016.

6(h) Provisions

	2017 $	2016 $
Current		
Employee benefits	228,823	284,618
Rehabilitation	999,856	579,413
	1,228,679	**864,031**
Non-current		
Employee benefits	93,714	75,464
Rehabilitation	2,244,093	2,822,739
	2,337,807	**2,898,203**
Total provisions	**3,566,486**	**3,762,233**

Movement in provision - Rehabilitation:	2017 $	2016 $
Opening balance	3,402,152	3,679,080
Reduction for revised cost estimates	(1,046)	(356,865)
Cash spend	(119,535)	-
Movements in discount rates	(65,953)	249,844
Unwinding of discount	-	-
Movements in timing of expenditure	28,331	(169,907)
Closing balance	**3,243,949**	**3,402,152**
Current	**999,856**	**579,413**
Non-current	**2,244,093**	**2,822,739**

6. NON FINANCIAL ASSETS AND LIABILITIES (continued)

6(h) Provisions (continued)

Recognition and Measurement

Employee Provisions

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

Liabilities expected to be settled wholly within 12 months are measured at the amounts expected to be paid when the liabilities are settled. The Consolidated Group has assessed its annual leave provision and determined that the entire amount of the provision be presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. Based on past experience employees are taking their annual entitlement to leave within 12 months.

Liabilities not expected to be settled wholly within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

Site Rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of exploration and development activities undertaken, it is probable that an outflow of benefits will be required to settle the obligation and the provision can be measured reliably. The estimated future obligations will include (but are not limited to) the costs of site restoration, investigative bore holes, decommissioning of wells and removal/transfer of surface infrastructure (if applicable).

The provision for future restoration is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. Future restoration costs will be reviewed where appropriate and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

The initial estimate of restoration and rehabilitation relating to the construction or installation of site assets is capitalised into the cost of the related asset and amortised on the same basis as the related asset.

Changes in the estimate of the provision for restoration and rehabilitation are treated in the same way while the asset remains capitalised. As all the assets to which restoration and rehabilitation had been capitalised have been impaired since prior year ended 30 June 2016, the current and any future changes in these costs are credited or expensed through the profit and loss. The unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset, when the cost of the asset was recognised.

Panel Rehabilitation

The amount recognised as a provision will be the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. The provision will be measured using the cashflows estimated to settle the present obligation, therefore the carrying amount will be the present value of those cashflows.

As the Panel assets to which restoration and rehabilitation had been capitalised have been impaired since prior year ended 30 June 2016, the current and any future changes in these costs are credited or expensed through the profit and loss.

6. NON FINANCIAL ASSETS AND LIABILITIES (continued)

6(h) Provisions (continued)

Critical Accounting Estimates

Provision for Restoration and Rehabilitation

The Consolidated Group recognises that it has an obligation to restore and rehabilitate the area disturbed as a result of its exploration and development activities. The provision for rehabilitation is based on the best estimate of the current obligations to rehabilitate the Bloodwood Creek site.

The Consolidated Group lodged a rehabilitation plan for the site with the Queensland government in 2015 and awaits the Queensland government's response. Notwithstanding that a response has not yet been received by the Queensland government the Consolidated Group has reviewed the current estimate on the basis of the proposed plan and factoring in monitoring results subsequent to lodgement of the plan and has updated the provision. The current estimate uses valuations provided by external consultants. Three possible cases have been considered and weighted according to their likelihood.

To calculate the present value of the provision for rehabilitation, the Group has taken the weighted value of the estimated rehabilitation liability provided by the external consultants and inflated the liability to a future value using forecast inflation rates and applied an appropriate discount rate based on the expected timing for the rehabilitation expenditure.

7. EARNINGS PER SHARE (EPS)

	2017$	2016 $
Net loss for the year attributable to members of the parent entity	(39,324,959)	(100,545,304)
Basic loss per share (cents per share)	(2.17)	(6.64)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	**1,811,934,110**	**1,513,807,932**
Diluted loss per share (cents per share)	(2.17)	(6.64)
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	**1,811,934,110**	**1,513,807,932**

Options and performance rights outstanding at 30 June 2017, totalling 9,495,080 are not considered to be dilutive potential ordinary shares as the effect is anti-dilutive due to the nature of vesting conditions.

8. ISSUED CAPITAL

	2017		2016	
	No. shares	$	No. shares	$
Share capital				
1,813,428,879 fully paid ordinary shares (2016: 1**,775,730,120**)				
Movement:				
Balance at start of period	1,775,730,120	244,226,148	1,345,742,829	238,614,976
Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road convertible note facility)	6,924,582	126,027	38,237,766	501,370
Exercise of listed options	4,945	312	-	-
Private Placement Issue	-	-	123,845,128	1,924,081
Renounceable Rights Issue	30,769,232	400,000	267,904,397	3,482,755
Share issue costs	-	(21,083)	-	(297,034)
Balance at end of period	**1,813,428,879**	**244,731,404**	**1,775,730,120**	**244,226,148**

Ordinary Fully Paid Shares

The Company has no maximum authorised share capital. Ordinary shares are of no par value.

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

On 4 July 2016 the Company issued 30,769,232 ordinary fully paid shares at a price of $0.013 each for additional shares placed as part of the Rights Issue Shortfall from the 4 April 2016 Renounceable Rights, raising $400,000 before costs.

Notes to the Consolidated Financial Statements

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8. ISSUED CAPITAL (continued)

A further 4,945 shares were issued from the exercise of the Company's listed $0.0594 options, prior to expiry on 31 July 2016.

Under the terms of the Pacific Road Facility interest is paid through the issue of shares, 3 months in arrears. During the year 6,924,582 ordinary shares were issued representing $126,027 of interest. As a result of the Company being under Administration, no shares were able to be issued for the 3 months ending 28 November 2016 or subsequently. As part of the terms of an amended DOCA approved by creditors on 23 May 2017, all outstanding interest owing under the Facility was proposed to be waived with no further shares being issued. Refer to Note 5(f) Financial Liabilities for further information in relation to the Facility.

Total costs associated with all share issues during the half year were $21,083.

Recognition and Measurement

Issued and paid up capital is recognised at the fair value of the consideration received by the Consolidated Group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Listed Options

During the year 4,945 listed options exercisable at $0.0594 were exercised. The remaining 443,691,459 listed options expired on 31 July 2016 without being exercised.

Unlisted Options and Performance Rights

As at 30 June 2017 the Company has on issue 9,495,080 unlisted options. All the unlisted options have vested and are exercisable. Exercise prices for unlisted options range from $0.026 to $0.1678.

On 23 May 2017, creditors approved an amended DOCA. Under the proposed DOCA all unlisted options and performance rights will be cancelled for nil consideration. Subsequent to current year end, on 18 July 2017, the transactions contemplated under the DOCA were approved by shareholders.

Refer to Note 15 for further details of outstanding options and performance rights. Options and performance rights carry no rights to dividends and no voting rights.

Capital Risk Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

In order to maintain or adjust the capital structure, the entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, enter into joint ventures or sell assets.

The entity does not have a defined share buy-back plan. No dividends were declared in 2017 (2016: Nil).

Stock Exchange Listing

Quotation has been granted for 1,813,428,879 (2016: 1,775,730,120) of the Company's ordinary shares on all Member exchanges of the Australian Stock Exchange Limited ("ASX").

The Company was also previously quoted on the US securities market, the International OTCQX in New York, with Merriman Capital providing Principal American Liaison (PAL) services for the Company's quotation on the OTCQX. As at current year ended 30 June 2017, the Company is no longer quoted on the OTCQX.

Notes to the Consolidated Financial Statements

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9. RESERVES

	2017 $	2016 $
Share based payments reserve	16,251,613	16,251,613
Options reserve	1,650,388	1,650,406
Other reserve	2,101,590	2,101,590
Total reserves	**20,003,591**	**20,003,609**

Movements in reserves and reserve balances are detailed in the consolidated statement of changes in equity. The nature and purpose of each reserve account is as follows:

Share Based Payments Reserve
The share based payments reserve is used to recognise the fair value of options and performance rights issued to employees, including Key Management Personnel in relation to equity-settled share based payments.

Options Reserve
The options reserve records the value of listed options on issue.

Other Reserve
The other reserve records the conversion option attached to the Pacific Road Convertible Note Facility. The conversion option remains deferred in the reserve until the conversion option is exercised. Refer to Note 5(g) for additional information.

10. FINANCIAL RISK MANAGEMENT

Financial Risk Management Objectives

The Consolidated Group's management of financial risk is aimed at ensuring net cash flows are sufficient to meet all its financial commitments and maintain the capacity to fund the Consolidated Group's growth activities.

Market, liquidity and credit risk (including interest rate and foreign exchange risk) arise in the normal course of the Consolidated Group's business. These risks are managed under Board approved directives which underpin Carbon Energy finance practices and processes.

The Consolidated Group's principal financial instruments comprise interest bearing debt, cash and short-term deposits. Other financial instruments include trade receivables and trade payables, which arise directly from operations.

Other minor risks are either summarised below or disclosed at Note 8 in the case of capital risk management.

(a) Liquidity Risk

The liquidity position of the Consolidated Group is managed to ensure sufficient liquid funds are available to meet the Consolidated Group's financial commitments in a timely and cost effective manner.

Management continually reviews the Consolidated Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels.

The following tables detail the Consolidated Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Consolidated Group can be required to pay.

The maturity analysis of contracted payables at the reporting date is as follows:

		Payables Maturity Analysis			
2017	**TOTAL**	**<1 year**	**1-2 years**	**2-3 years**	**>3 years**
Trade and other payables	1,566,301	1,566,301	-	-	-
Loans and borrowings	1,710,000	1,710,000	-	-	-
Pacific Road Convertible Note	10,000,000	10,000,000	-	-	-
	13,276,301	**13,276,301**	-	-	-
2016					
Trade and other payables	643,270	643,270	-	-	-
Pacific Road Convertible Note	10,000,000	10,000,000	-	-	-
Interest payable	278,082	278,802	-	-	-
	10,921,352	**10,921,352**	**-**	**-**	**-**

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10. FINANCIAL RISK MANAGEMENT (continued)

(b) Market Risk

(i) Interest Rate Risk

The Consolidated Group's exposure to the risks of changes in market interest rates relates largely to the Consolidated Group's cash deposits with a floating interest rate and its short term deposits and bonds with fixed interest rates (these are predominantly 30, 60 and 90 day revolving term deposits). These financial assets expose the Consolidated Group to cash flow interest rate risk.

Refer to Note 5(e) Loans and Borrowings for details on the Kam Lung interim loan facility and other funding.

Refer to Note 5(f) Financial Liabilities for details on the Pacific Road Facility.

In regard to its interest rate risk, the Consolidated Group continuously analyses its exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative investments and the mix of fixed and variable interest rates. The Consolidated Group does not engage in any hedging or derivative transactions to manage interest rate risk.

The following table sets out the carrying amount by maturity of the Consolidated Group's exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments.

	Weighted Ave		Floating Interest		Fixed Interest Rate		Non-Interest		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	%	%	$	$	$	$	$	$	$	$
Cash	1.00	2.85	61,242	255,069	-	1,950,000	18,193	3,002	**79,435**	**2,208,071**
Receivables	2.53	2.92	-	-	202,553	235,053	1,329,204	210,321	**1,531,757**	**445,374**
Total financial assets			**61,242**	**255,069**	**202,553**	**2,185,053**	**1,347,357**	**213,323**	**1,611,192**	2,653,445
Trade and other payables	-	-	-	-	-	-	(1,566,301)	(643,270)	**(1,566,301)**	**(643,270)**
Loans and borrowings	-	-	-	-	-	-	(1,710,000)	-	**(1,710,000)**	-
Financial liability [1]	8.13	5.00	-	-	(10,000,000)	(9,210,047)	-	-	**(10,000,000)**	**(9,210,047)**
Total financial liabilities			**-**	-	**(10,000,000)**	**(9,210,047)**	**(3,276,301)**	**(643,270)**	**(13,276,301)**	**(9,853,317)**
Net financial assets / (liabilities)			**61,242**	255,069	**(9,797,447)**	**(7,024,995)**	**(1,928,944)**	**(429,947)**	**(11,665,109)**	**(7,199,872)**

[1] As the Pacific Road Facility and residual accrued interest remained outstanding at repayment date 18 January 2017 and 30 June 2017, further interest on overdue amounts have been accrued at a rate of 10% per annum for the period.

The following table provides a sensitivity analysis on profit and equity after tax if interest rates at that date had been 10% higher or lower with all other variables held constant.

	Interest Rate Risk Sensitivity 2017		Interest Rate Risk Sensitivity 2016	
	+10% Profit $	-10% Profit $	+10% Profit $	-10% Profit $
Cash	61	(61)	718	(676)
Receivables	-	-	-	-
Total financial assets	**61**	**(61)**	**718**	**(676)**
Trade and other payables	-	-	-	-
Financial liability – Macquarie Bank	-	-	-	-
Financial liability – Pacific Road	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**
Net financial assets / (liabilities)	**61**	**(61)**	**718**	**(676)**

A sensitivity of 10% has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. A 10% sensitivity would increase/(decrease) short term interest rates at 30 June 2017 by approximately 10 basis points.

Based on the sensitivity analysis only interest revenue from cash and cash equivalents are impacted resulting in a decrease or increase in overall income.

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10. FINANCIAL RISK MANAGEMENT (continued)

(b) Market Risk (continued)

(ii) Market Price Risk

Price risk is the risk that the Consolidated Group's financial position will be adversely affected by movements in the market value of its financial assets arising from investments in equity securities. To manage its price risk arising from investments in equity securities, the Consolidated Group only invests in equity securities approved by the Board of Directors and where the investment provides a strategic advantage to the Consolidated Group. The Consolidated Group currently has no investments in equity instruments. Accordingly, a sensitivity analysis has not been performed.

(iii) Foreign Currency Risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The establishment and settlement of foreign exchange transactions require senior and financial management approval to minimise exposures to currency fluctuations. To date the Consolidated Group's foreign transactions have not been material however this will be monitored going forward to ensure foreign currency risk is managed effectively.

(c) Credit Risk

Credit risk arises mainly from cash and cash equivalents and deposits with banks and financial institutions. Receivables include amounts owing from debtors, amounts on deposit and interest.

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount, net of any provision for impairment of those assets, as disclosed in Note 5(b) to the financial statements.

The credit risk for counterparties in trade and other receivables at 30 June 2017 are not credit rated by the Company. Their maturities are detailed below:

	2017 $	2016 $
Contracted maturities of receivables at year ended		
Receivable:		
Less than 6 months	1,185,673	127,797
6 to12 months	-	-
1 to 5 years	-	-
Later than 5 years	-	-
	1,185,673	**127,797**

(d) Fair Values of Financial Instruments Carried at Fair Value through Profit and Loss

Fair Value Technique Utilised

In prior year, the fair value of the financial liability was determined by unwinding over the loan period the transaction costs including prepaid interest and 61,728,395 options issued to Credit Suisse at a strike price of $0.081. The 2013 rights issue resulted in a recalculation of the strike price which has reduced to $0.061. The issue of these options was treated as an embedded derivative and the value classified as a derivative financial liability. These options were not exercised and expired on 15 November 2015.

There are no other financial instruments carried at fair value through profit or loss at current year end.

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11. CONTROLLED ENTITIES

	Country of Incorporation	Principal Activity	Percentage Owned	
			2017 %	2016 %
Carbon Energy Ltd (CEL)	Australia	Parent entity of the Consolidated Group	-	-
Carbon Energy (Holdings) Pty Ltd (CEH)	Australia	Holding company for Carbon Energy Operations	100	100
Carbon Energy (Operations) Pty Ltd (CEOPL)	Australia	Facilitate the construction and commissioning of the Underground Coal Gasification project in Queensland	100	100
Coronation Drive (Energy) Pty Ltd	Australia	Dormant company	100	100
Carbon Energy (Galilee) Pty Ltd	Australia	Dormant company	100	100
Carbon Energy (Latin America) Pty Ltd	Australia	Holding company for the investment in Mulpun, Chile	100	100
Carbon Energy Chile Limitada	Chile	To jointly assess and develop an Underground Coal Gasification project at Mulpun, Chile	100	100

The subsidiaries noted above are all controlled entities and are dependent on the parent entity for financial support.

12. PARENT ENTITY DISCLOSURES

Financial information for the parent entity is as follows:

	2017 $	2016 $
Assets		
Current assets	1,094,376	2,212,235
Non-current assets	10,514,092	45,269,166
Total assets	**11,608,468**	**47,481,401**
Liabilities		
Current liabilities	12,319,584	9,703,959
Non-current liabilities	-	-
Total liabilities	**12,319,584**	**9,703,959**
Equity		
Issued capital	244,731,404	244,226,148
Accumulated losses	(265,446,111)	(226,452,315)
Reserves		
Share based payments reserve	16,251,613	16,251,613
Options reserve	1,650,388	1,650,406
Other reserve	2,101,590	2,101,590
Total equity	**(711,116)**	**37,777,442**

		2016 $
Net loss for the year	(38,993,796)	(100,545,304)
Other comprehensive income	-	-
Total comprehensive loss	**(38,993,796)**	**(100,545,304)**

Refer Note 13(d) for Contingent Liabilities.

Refer to Note 5(e) for Loans and Borrowings and 5(f) for Financial Liabilities.

Notes to the Consolidated Financial Statements

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13. COMMITMENTS, CLAIMS, GUARANTEES, CONTINGENT ASSETS AND LIABILITIES, AND CREDIT FACILITIES

(a) Exploration Commitments

The Consolidated Group is required to perform ongoing exploration expenditure and has certain statutory obligations to perform minimum exploration work on its tenements. No provision has been made in the financial statements for these amounts as the amounts are expected to be fulfilled in the normal course of the operations of the Consolidated Group.

Applications have been lodged with the Department of Natural Resources & Mines (DNRM) for extensions to a number of tenements and consequently the statutory exploration commitments for these tenements are deferred and awaiting decision. The statutory expenditure requirements may be renegotiated with the State's Mineral and Energy Departments and expenditure commitments may be varied between tenements, reduced subject to exploration area or relinquished for non-prospective tenements.

	2017 $	2016 $
These obligations which are not provided for in the financial statements and are payable:		
• not later than one year	90,807	79,926
• later than one year but not later than five years	561,357	575,200
Total exploration commitments	**652,164**	**655,126**

(b) Operating Lease Commitment

The Consolidated Group leases assets for operations including equipment and office premises. The leases have a life of between 11 months and 3 years.

The lease for the Brisbane office commenced on 1 February 2013 for a term of 6 years and expires on 31 January 2019 with a further 5 year option. Rent increases are set at a 4% increase per annum.

During the current year, the Consolidated Entity entered into a lease agreement to sublet part of its Brisbane office lease. The lease commenced on 1 August 2016 and expires on 30 January 2019. Rent increases are set at a 4% increase per annum.

	2017 $	2016 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
• not later than one year	429,931	418,616
• later than one year but not later than five years	256,072	686,003
Total operating lease commitments	**686,003**	**1,104,619**
Future minimum sublease payments expected to be received	**231,198**	**-**

(c) Claims of Native Title and Cultural Heritage

Mineral Exploration

The Company is aware of native title claims made in accordance with the Native Title Act 1993 (NTA) that was enacted to accommodate the decision of the High Court in Mabo v Queensland (No2) (1992) 175 CLR 1, which recognised the rights and interests of the Aboriginal and Torres Strait Islanders as a form of common law native title.

The main objectives of the NTA are to:

- provide for the recognition and protection of native title;
- establish ways in which future dealings affecting native title may proceed and to set standards for those dealings; and.
- establish a mechanism for determining claims to native title; and provide for, or permit, the validation of past acts invalidated because of the existence of native title.

Exploration and UCG

A Cultural Heritage Management Plan (CHMP) has been developed in partnership with the Aboriginal traditional owners of the lands the subject of the UCG demonstration trial. The CHMP is registered under the provisions of the Aboriginal Cultural Heritage Act and ensures that there is minimal impact or damage caused to Aboriginal cultural heritage items, materials or values during the exploration and UCG activities on mining and petroleum tenements owned by Carbon Energy.

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13. COMMITMENTS, CLAIMS, GUARANTEES, CONTINGENT ASSETS AND LIABILITIES, AND CREDIT FACILITIES (continued)

(d) Contingent Liabilities

The following contractual matters are in progress:

Summa Resources Holdings LLC (Summa)
As announced to the market on 25 November 2015, the Company was served with proceedings filed by Summa Resource Holdings LLC (Summa) against it in the United States District Court for the Northern District of California (the Complaint). On 6 May 2016 the Court dismissed the Complaint without the need for a hearing. The Court found that the Company had sufficiently demonstrated that permitting the action to proceed in the Northern District of California would be unnecessarily burdensome and that the factors considered by the Court weighed in favour of the matter being dismissed on the basis of forum non conveniens. Accordingly, the Court did not need to consider the merits of the Company's motions to dismiss and strike Summa's claim.

When the Company entered Voluntary Administration on 22 November 2016, Summa submitted a proof of debt to the Administrators totalling US$9 million in relation to a claim pursuant to a share sale agreement dated February 2011 between Summa and the Company.

As reported by the Administrators in their Section 411 Report to Creditors, the proof of debt received from Summa did not contain sufficient information for the Administrators to assess the validity of its claim. The Administrators wrote to Summa requesting further particulars, including an explanation as to why Summa believes its entitlement to receive the tranche 4 and 5 shares has converted to a monetary claim of US$9 million.

Summa provided further particulars of its claim on 1 February 2017 that justified an arguable claim against the Company for breach of contract for US$9 million. However, on the information provided by Summa, the claim is a "subordinate claim" against the Company within the meaning of Section 563A of the Act. A subordinate claim is defined to be either:

- a claim for a debt owed by the company to a person in the person's capacity as a member of the company (whether by way of dividends, profits or otherwise); or
- any other claim that arises from buying, holding, selling or otherwise dealing in shares in the company.

In the Administrators' opinion, the claim articulated by Summa falls within both limbs of this definition.

In general terms, creditors who have subordinate claims are postponed until all other debts payable by, and claims against, the Company have been satisfied. That is, subordinate creditors are placed last on the priority ladder. The DOCA provided that there was insufficient consideration available to fully repay unsecured creditors and accordingly insufficient funds were available to make any payment to subordinate creditors.

On approval of the DOCA, all unsecured claims against the Company which existed as at the date of appointment of the administrators were released in return for a right to participate in the trust fund established under the DOCA. This included any claim that Summa asserts against the Company.

(e) Bank Guarantees

	2017 $	2016 $
Standby arrangements with banks to provide funds and support facilities for bank guarantees relating to rehabilitation bonds.		
These facilities are secured by fixed term cash deposits		
Bank Credit Facility – Deposit [1]	-	32,500
Amount Utilised	-	(32,500)
Unused Bank Credit Facility	**-**	**-**
Interest rates on these credit facilities are variable and subject to adjustment.		
Bank Guarantee in relation to Environmental bonds	53,640	53,140
Bank Guarantee in relation to the entity's share of guarantee for lease of office premises	181,913	181,913

[1] During the period the Administrators cancelled the Bank Credit Card facility and the Deposit was refunded to the Company

At current year end, the Consolidated Group also has $9,000 held as security deposit by suppliers.

Notes to the Consolidated Financial Statements

Other Information

13. COMMITMENTS, CLAIMS, GUARANTEES, CONTINGENT ASSETS AND LIABILITIES, AND CREDIT FACILITIES (continued)

(f) Other Credit Facilities

	2017 $	2016 $
Pacific Road convertible note facility	10,000,000	10,000,000
Kam Lung interim loan facility	1,740,000	-
	11,740,000	**10,000,000**
Unused credit facility	230,000	**-**

Refer to Note 5(e) Loans and Borrowings for details on the Kam Lung interim loan facility and other funding.

Refer to Note 5(f) Financial Liabilities for details on the Pacific Road Facility.

14. EVENTS SUBSEQUENT TO BALANCE DATE

On 18 July 2017, the Company held its 2016 Annual General Meeting whereby all resolutions put to shareholders were passed. The resolutions included the approval of the recapitalisation transactions contemplated under the DOCA, the consolidation of share capital, the election / re-election of various Directors, a 10% placement capacity, adoption of an employee incentive plan, the appointment of auditors and the adoption of the prior year remuneration report. All conditions precedent provided for under the DOCA was subsequently satisfied and the DOCA completion was achieved.

As a result of the transactions contemplated under the DOCA, Kam Lung's ownership in the Company increased to 80%. Pacific Road and its associated entities ceased to be a substantial holder in the Company.

On 24 July 2017, the Company completed its 1:100 share consolidation.

On commencement of trading on 26 July 2017, the suspension of trading in the Company's securities was lifted by the ASX.

On 2 October 2017, the Company announced that three coal deposits have been assessed as suitable for continued activity to develop UCG by Carbon Energy and the JV and third parties are working to obtain the permits to commence site characterisations required to develop the initial UCG panels.

The Company's securities were suspended from Official Quotation as from the commencement of trading on 2 October 2017, in accordance with ASX Listing Rule 17.5.

Apart from the matters noted above, the Directors are not aware of any other matters or circumstances not otherwise dealt with in the report or financial statements that have significantly, or may significantly affect the operations of the Company or the Consolidated Group, the results of the operations of the Company or the Consolidated Group, or the state of affairs of the Company or the Consolidated Group in subsequent financial years.

15. SHARE BASED PAYMENTS

(a) Short Term Executive Incentive (STI)

Refer to the Remuneration Report, contained in the Director's Report for information on the Consolidated Group's Short Term Incentive program.

(b) Long Term Executive Incentive (LTI)

Refer to the Remuneration Report, contained in the Director's Report for information on the Consolidated Group's Long Term Incentive program.

(c) Convertible Note

The Pacific Road Convertible Note Facility Agreement requires Carbon Energy to pay interest of 5% per annum on the Facility amount. The interest is payable quarterly in arrears and is payable through the issuance of shares in Carbon Energy at the 5 day VWAP for the shares on the ASX prior to the day a payment is due.

Financial Report

Notes to the Consolidated Financial Statements

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15. SHARE BASED PAYMENTS (continued)

(d) Employee Options and Performance Rights

The following table summarises movements in options/performance rights for the year ended 30 June 2017:

Grant date 2017	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Expired/ Forfeited during the year Number	Balance at the end of the year Number	Exercisable at the end of the year Number
25/01/2012	18/01/2017	$0.1678	7,000,000	-	-	(7,000,000)	-	-
25/01/2012	25/02/2017	$0.1678	28,000,000	-	-	(28,000,000)	-	-
15/10/2013	15/10/2016	$0.026	3,507,861	-	-	(3,507,861)	-	-
06/12/2013	15/10/2016	$0.026	3,573,877	-	-	(3,573,877)	-	-
26/08/2014	25/08/2017	$0.0301	3,953,516	-	-	-	3,953,516	3,953,516
20/11/2014	25/08/2017	$0.0301	5,541,564	-	-	-	5,541,564	5,541,564
			51,576,818	**-**	**-**	**(42,081,738)**	**9,495,080**	**9,495,080**
Weighted average exercise price			**$0.1230**	**$0.0000**	**$0.0000**	**$0.1439**	**$0.0301**	**$0.0301**

The following table summarises movements in options/performance rights for the year ended 30 June 2016:

Grant date 2016	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Expired/ Forfeited during the year Number	Balance at the end of the year Number	Exercisable at the end of the year Number
25/01/2012	18/01/2017	$0.1678	7,000,000	-	-	-	7,000,000	7,000,000
25/01/2012	25/02/2017	$0.1678	28,000,000	-	-	-	28,000,000	28,000,000
16/11/2012	15/11/2015	$0.061	61,728,395	-	-	(61,728,395)	-	-
16/11/2012	15/11/2015	$0.061	9,645,845	-	-	(9,645,845)	-	-
02/01/2013	31/12/2015	$0.12	3,084,000	-	-	(3,084,000)	-	-
15/10/2013	15/10/2016	$0.026	3,507,861	-	-	-	3,507,861	3,507,861
06/12/2013	15/10/2016	$0.026	3,573,877	-	-	-	3,573,877	3,573,877
06/12/2013	30/06/2019	$0.06	33,333,333	-	-	(33,333,333)	-	-
26/08/2014	25/08/2017	$0.0301	3,953,516	-	-	-	3,953,516	3,953,516
20/11/2014	25/08/2017	$0.0301	5,541,564	-	-	-	5,541,564	5,541,564
31/03/2015	30/06/2016	-	12,500,000	-	-	(12,500,000)	-	-
			171,868,391	**-**	**-**	**(120,291,573)**	**51,576,818**	**51,576,818**
Weighted average exercise price			**$0.0744**	**$0.0000**	**$0.0000**	**$0.0559**	**$0.1230**	**$0.1230**

As at 30 June 2016 the Company has on issue 9,495,080 unlisted options and 114,858,621 performance rights proposed to be issued. Under the DOCA approved by creditors on 23 May 2017, all unlisted options and performance rights will be cancelled for nil consideration. Subsequent to current year end, on 18 July 2017, the transactions contemplated under the DOCA were approved by shareholders.

Fair Value of Options and Performance Rights Granted

No options were granted during the 2017 and 2016 years.

Notes to the Consolidated Financial Statements
Other Information

15. SHARE BASED PAYMENTS (continued)

(e) Shares

The Company issues shares to employees as part of the STI plan. No shares were issued to employees during the 2017 year.

The Pacific Road Facility also requires the Company to pay interest of 5% per annum on the $10,000,000 facility. The Pacific Road Facility interest is payable quarterly in arrears and is payable through the issuance of shares in the Company at the 5 day VWAP for the shares on the ASX prior to the day a payment is due.

The following table summarises the share based payment shares issued during the year ended 30 June 2017.

Issue Date	No. of Shares	Description	Deemed Value
30/8/2016	6,924,852	Interest costs in relation to Pacific Road Convertible Note Facility	$0.0182

As a result of the Company being under Administration, no shares were able to be issued for subsequent interest costs. As part of the terms of the DOCA approved by creditors on 23 May 2017, all outstanding interest owing under the Facility was proposed to be waived with no further shares being issued. Subsequent to current year end, on 18 July 2017, the transactions contemplated under the DOCA were approved by shareholders.

The following table summarises the share based payment shares issued during the year ended 30 June 2016.

Issue Date	No. of Shares	Description	Deemed Value
28/08/2015	9,475,744	Interest costs in relation to Pacific Road Convertible Note Facility	$0.0133
30/11/2015	8,875,169	Interest costs in relation to Pacific Road Convertible Note Facility	$0.0142
11/03/2016	7,815,783	Interest costs in relation to Pacific Road Convertible Note Facility	$0.0163
01/06/2016	12,071,070	Interest costs in relation to Pacific Road Convertible Note Facility	$0.0101

(f) Expenses arising from share-based payment transactions

A total expense arising from share based payment transactions of $126,027 was recognised during the year and included in finance costs (2016: $501,370).

Total expenses arising from share based payment transactions recognised during the year as part of the employee benefit expenses were as follows:

	2017 $	2016 $
Shares issued under the short term incentive scheme	-	-
Shares issued under the long term incentive scheme	-	-
Options issued under the long term incentive scheme	-	75,588
Closing balance	**-**	**75,588**

Recognition and Measurement

The Consolidated Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

15. SHARE BASED PAYMENTS (continued)

(f) Expenses arising from share-based payment transactions (continued)

Share-based Payments Transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Consolidated Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Consolidated Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in profit or loss for the year.

Critical Accounting Estimates

The Consolidated Group measures the cost of equity-settled transactions with employees and non-employees by reference to the fair value of the equity instruments at the date at which they are granted. Fair value is determined by using the Black Scholes options pricing model or Monte Carlo, depending on the conditions attached to the options and performance rights. Fair valuation inputs are detailed above.

The fair value is most sensitive to the volatility input. Equity instrument volatilities to match the life of the equity instrument have been provided by independent consultants.

16. RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

(a) Key Management Personnel compensation

	2017 $	2016 $
Short-term employee benefits	1,204,398	1,641,831
Post-employment benefits	87,414	158,500
Long-term benefits	4,150	5,044
Share-based payments	68,472	86,388
TOTAL	**1,364,434**	**1,891,763**

Detailed remuneration disclosures are provided in the remuneration report.

(b) Key Management Personnel share transactions	2017 Shares	2016 Shares
Subscription for new ordinary shares and options by key management personnel as a result of:		
Short term incentive grants	-	-
Share Purchase Plan	-	-
Private Placement (Held in escrow until 07/10/16)	-	123,845,128
Rights issue	-	221,350,030
Pacific Road Convertible Note Facility - Interest costs in relation to drawdown of Tranche A and Tranche B	6,924,582	38,237,766

No options or performance rights were granted as remuneration during the current financial year (2016: nil).

Notes to the Consolidated Financial Statements

Other Information

16. RELATED PARTY TRANSACTIONS (continued)

	2017 $	2016 $
(c) Director – Related Entities		
Other service fees charged to Carbon Energy Limited of which Peter Hogan was both a Director of Carbon Energy Limited and consultant to Incitec Pivot Limited subsidiary at that time.	-	40,000
Other service fees charged to Carbon Energy Limited of which Louis Rozman was both a Director of Carbon Energy Limited and Pacific Road Capital Management Holdings Pty Limited at that time.	10,000	30,000
Other service fees charged to Carbon Energy Limited of which George Su was both an Alternate Director of Carbon Energy Limited and Director of Silk Road Corporate Finance Pty Limited at that time.	10,000	26,957
Underwriting fees charged to Carbon Energy Limited of which Huihai Zhuang was both a Director of Carbon Energy Limited and Kam Lung Investment Development Company Ltd at that time	-	18,000

Whilst as a Director of the Company, Louis Rozman (Non-Executive Director) held Directorships in other companies which are shareholders of Carbon Energy Limited. Mr Rozman ceased as Director of the Company on 10 October 2016.

Huihai Zhuang (Non-Executive Director) holds a Directorship and shares in Kam Lung Investment Development Company Ltd, which is a shareholder of Carbon Energy Limited.

George Su (Non-Executive Director) was appointed as Alternate Director to Mr Zhuang from 4 December 2015 to 9 March 2017, at which time Mr Su was appointed Non-Executive Director.

(d) Other Related Party Transactions

$10 million Convertible Note

On 22 December 2011 Carbon Energy executed a Convertible Note Facility Agreement with Pacific Road Capital Management Pty Ltd (Pacific Road).

The Convertible Note Facility Agreement requires Carbon Energy to pay interest of 5% per annum on the Pacific Road Facility amount. The interest is payable quarterly in arrears and is payable through the issuance of shares in Carbon Energy at the 5 day VWAP for the Shares on the ASX prior to the day a payment is due. Pacific Road may convert all or part of the Facility amount to shares in the Company at any time during the term at a conversion price of $0.14. If the share price exceeds $0.40 for continuous 60 day VWAP period the Company can request the conversion of the Facility in full. The Facility repayment date is 18 January 2017 and any part of the Facility amount not converted into shares on that date is repayable in cash by the Company on that date. As the Pacific Road Facility and residual accrued interest remained outstanding at repayment date 18 January 2017 and 30 June 2017, further interest on overdue amounts have been accrued at a rate of 10% per annum for the period.

The 35,000,000 options issued with a strike price at a 25% premium over the term of the Pacific Road Facility agreement expired on 18 January 2017 and 25 February 2017.

Refer to Note 5(f) Financial Liabilities for details on the Pacific Road Facility.

Kam Lung Interim Loan Facility and events post balance sheet

Refer to Note 5(e) Loans and Borrowings for details on the Kam Lung interim Loan Facility.

Refer to Note 14 events subsequent to balance date for details on the Kam Lung Convertible Note and recapitalisation transactions.

17. REMUNERATION OF AUDITORS

	2017 $	2016 $
(a) Auditor of the parent entity:		
• reviewing the half year financial report	20,000	35,000
• auditing the annual financial report	47,000	45,000
• other non audit services – advisory services	-	-
	67,000	**80,000**
(b) Network firm of the parent entity auditor:		
• other non audit services – advisory services	-	-
	-	**-**

The auditor of Carbon Energy Limited was Deloitte Touche Tohmatsu up until their resignation on 28 June 2016. The Board appointed Grant Thornton Audit Pty Ltd (Grant Thornton) as auditor to complete the 30 June 2016 audit and going forward. Grant Thornton's appointment was approved by shareholders as the 2016 Annual General Meeting held on 18 July 2017. Recoverable outlays may be charged by the auditors in addition to the above remunerations.

18. STATEMENT OF OPERATIONS BY SEGMENT

The Consolidated Group operates in one segment, being development of clean energy and chemical feedstock from UCG syngas and reports to the chief operating decision-maker on this basis. As such one reportable segment has been identified and this basis is consistent with the current reporting structure.

The Group accounted for revenue of $50,000 (2016: $189,069) with all amounts relating to technology services performed in Australia and delivered to Chinese projects.

19. SUMMARY OF ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Consolidated Group consists of Carbon Energy Limited (Company) and its controlled entities. The Company is a listed, for profit, public company, incorporated and domiciled in Australia

(a) Statement of compliance

The consolidated financial statements of the Consolidated Group are a general purpose financial report which has been prepared in accordance with the Corporations Act, Australian Accounting Standards and Interpretations, International Financial Reporting Standards (IFRS) and complies with other requirements of the law.

The financial statements were authorised for issue by the Directors on 5 October 2017.

(b) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Consolidated Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the subsidiary acquired 'acquiree' and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Consolidated Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange.

19. SUMMARY OF ACCOUNTING POLICIES (continued)

(c) Foreign currencies

For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Consolidated Group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period, income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

(d) Good and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

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

(e) New and amended standards adopted by the Consolidated Group

The Consolidated Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised in the financial statements of the Consolidated Group.

(f) Accounting standards issued but not effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Consolidated Group. The Consolidated Group's assessment of the impact of these new standards and interpretations is set out below.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending	Impact
AASB 9 *Financial Instruments* (December 2014), AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9' (December 2014)	1 January 2018	30 June 2019	No material impact based on current financial instruments
AASB 15 *Revenue from contracts with customers,* AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15,* AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15*	1 January 2018	30 June 2019	No material impact to current contracts
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2018	30 June 2019	No material impact from current transactions
AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share based Payment Transactions*	1 January 2018	30 June 2019	Expected to not be material
AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*	1 January 2018	30 June 2019	Expected to not be material
AASB 16: *Leases*	1 January 2019	30 June 2020	No material impact to current contracts

Financial Report

Directors' Declaration

The Directors of the Company declare that:

The financial statements and notes, as set out on pages 32 to 65, are in accordance with the *Corporations Act 2001* and:

(a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 19(a) to the financial statements.

(c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Consolidated Group.

(d) the Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Peter A. Hogan

Mr Peter Hogan
Chairman

Brisbane, Queensland

5 October 2017

Grant Thornton

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Carbon Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated 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 Group's financial position as at 30 June 2017 and of its 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 independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We 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 1(a) in the financial statements, which outlines the Group's position in relation to going concern. The Group incurred a net loss of $38,943,854 during the year ended 30 June 2017, and as of that date, the Group's current liabilities exceeded its total assets by $12,688,096. As stated in Note 1(a), these events or conditions, along with other matters as set forth in Note 1(a), indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment of intangible assets **Note 6(a)**	
At 30 June 201 7 the carrying value of indefinite life intangible assets associated with the capitalised costs of development of the underground coal gasification technology was $13.5million. In accordance with AASB 136 *Impairment of Assets*, management is required to assess on an annual basis whether the carrying value of the intangible assets exceed the recoverable amount. The recoverable amount of these assets is dependent on the Group's ability to implement the gasification technology. Determining the recoverable amount of the intangible assets using a discounted cash flow model requires significant management judgement. This area is a key audit matter due to the degree of management judgement required and the impact these judgements have on the annual report.	Our procedures included, amongst others: • obtaining management's assessment of the recoverable amount, being the value in use, of the asset; • assessing the competence, capabilities and objectivity of the expert engaged by management to perform this assessment • assessing the appropriateness of the model used and is adherence to the requirements of AASB 136 *Impairment of Assets*; • challenging key assumptions in the cash flow model, namely the discount rate used; • testing timing and value of cash inflows by comparing to year to date actual performance; • using our internal valuation specialist to assess the reasonableness of the model; • testing related journal entries made by management by agreeing to source documents; and • reviewing the appropriateness of the related disclosures within the financial statements.
Provision for rehabilitation **Note 6(h)**	
At 30 June 2017, the carrying value of the provision for rehabilitation was $3.2m. The provision relates to the estimated cost of rehabilitation, decommissioning and restoration of areas disturbed during operation of the Bloodwood Creek site. The provision is based upon current cost estimates and has been determined on a discounted basis with reference to current legal requirements and technology. At each reporting date the rehabilitation liability is reviewed and re-measured in line with changes in observable assumptions, timing and the latest estimates of the costs to be incurred based on area of disturbance at reporting date. This process requires an element of management judgement. This area is a key audit matter due to the degree of management judgement involved.	Our procedures included, amongst others: • obtaining the restoration provision calculation prepared by management and agreeing to the requirements of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*; • challenging management's key assumptions, being the discount rate and timing of cash flows, regarding the restoration provision for appropriateness by performing sensitivity analysis and comparison to industry benchmarks; and • reviewing the appropriateness of the related disclosures within the financial statements.

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 Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard

Responsibilities of the Directors' for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 28 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Carbon Energy Limited, for the year ended 30 June 2017, 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.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Cameron Smith

CDJ Smith
Partner – Audit & Assurance
Brisbane, 5 October 2017

Corporate Directory

Carbon Energy Limited

ABN 56 057 552 137

ASX Code: CNX

Directors

Mr Peter Hogan
Mr George Su
Mr Huihai Zhuang

Company Secretary

Ms Ye-Fei Guo
Mr Ian Morgan

Registered & Principal Office

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Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

Auditors

Grant Thornton
Level 18, King George Central
145 Ann Street
BRISBANE QLD 4000
Telephone: +61 7 3222 0200

Tenement Schedule

As at 30 June 2017

Tenement Number	Grant date	Expiry Date	Holder	% of interest held	Sub-blocks as at 30 June 2017
EPC 867 [1, 2]	18/02/2005	17/02/2015	Carbon Energy (Operations) Pty Ltd	100%	167
EPC 868 [1]	18/02/2005	17/02/2015	Carbon Energy (Operations) Pty Ltd	100%	44
EPC 869 [1]	14/10/2004	13/10/2017	Carbon Energy (Operations) Pty Ltd	100%	63
EPC 1132	21/07/2007	20/06/2019	Carbon Energy (Operations) Pty Ltd	100%	23
MLa50253[3]	Application	-	Carbon Energy (Operations) Pty Ltd	100%	(1,342 ha)
MDL374 [2, 3]	01/02/2008	31/01/2018	Carbon Energy (Operations) Pty Ltd	100%	(2,868 ha)
PFL6 [1]	13/04/2010	12/04/2015	Carbon Energy (Operations) Pty Ltd	100%	(3 ha)

1 Formal meetings have been held with the Department of Natural Resources and Mines to obtain updates on the status of all expired tenements and renewal applications. Carbon Energy is awaiting feedback from the Department.
2 MDL 374 is wholly contained within EPC 867.
3 MLa 50253 is wholly contained within MDL 374.

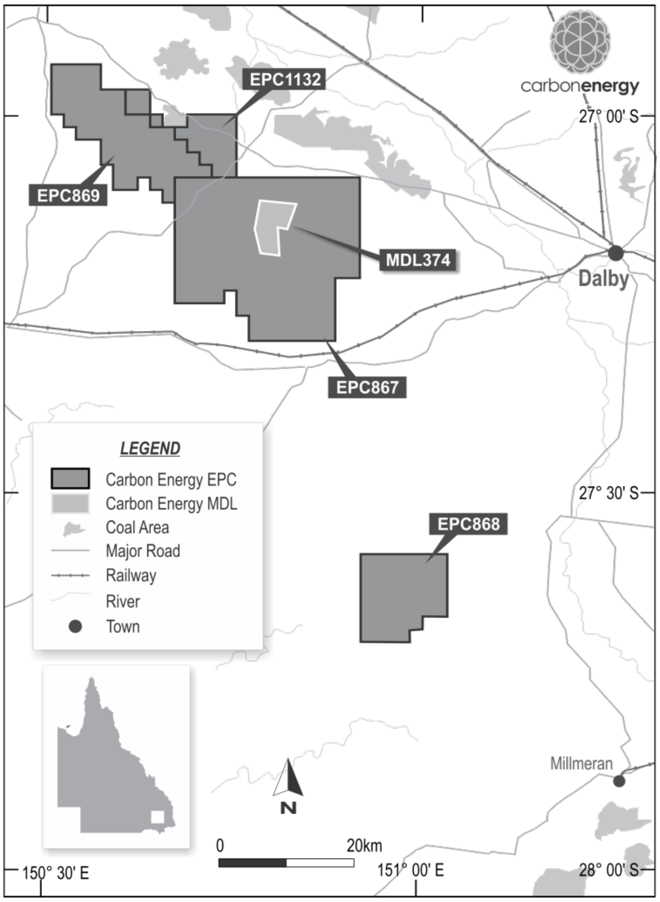

Figure 1 Tenement Location

Tenement Schedule

As at 30 June 2017

Carbon Energy Resources Statement

The Company's Inferred Thermal Coal Resources and equivalent Syngas Resources as at 30 June 2017, reported in accordance with 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) guidelines and the 2007 Society of Petroleum Engineers (SPE) Petroleum Resources Management System (PRMS) guidelines (respectively), are:

Tenure	Location	Commodity Classification[1]				
		Coal Resource		Syngas ResourceEquivalent[2]		
		Mineral Resource Category	Thermal Coal Resource (Mt)**	Reserve and Resource Classification	Gross (100%) Syngas Energy (PJ)**	Reserve Notes
MDL374	Kogan, QLD	Inferred	243	2C Contingent Resource	2,512.4	Undeveloped, unconventional
EPC867*	Kogan, QLD	Inferred	1,448	2C Contingent Resource	13,384.4	
EPC868	Millmeran, QLD	Not assessed due to insufficient data				
EPC869	Kogan, QLD	Inferred	449	2C Contingent Resources	4,150.3	
EPC1132	Kogan, QLD	Inferred	132	2C Contingent Resources	1,220.1	
	Totals:	**Thermal Coal Inferred Resources**	**2,272 Mt**	**2C Syngas Resource**	**21,267.2 PJ**	

* EPC 867 excludes resources contained within MDL 374.

** Refer to Mineral Resource and Syngas Resource Governance and Disclosures for accompanying notes.

Thermal coal can be gasified to produce syngas, so either coal or syngas can be extracted from the Company's tenements. Syngas is a mixture of methane, hydrogen and carbon monoxide. Accordingly, this table sets out the Company's conventional thermal coal resources as well as the alternative unconventional Syngas Resources equivalent. However, it should be noted that the coal asset can only be utilised as either coal or syngas and not both.

Mineral Resource and Syngas Resource Governance & Disclosures

Mineral Resources are estimated by suitably qualified competent persons who are consultants to Carbon Energy in accordance with the requirements of the JORC Code, using industry standard techniques and consultants' internal guidelines for the estimation and reporting of Mineral Resources.

Syngas Resources are estimated by suitably qualified petroleum reserves and resources evaluators who are consultants to Carbon Energy in accordance with the requirements of the 2007 SPE PRMS, using industry standard techniques and consultants' internal guidelines for the estimation and reporting of Syngas Reserves and Resources.

The company will continue to review and report on any material changes in the underlying information (including but not limited to syngas production, coal resource amendment or update, syngas production technology amendment or update, or changes to tenure) and in any event once per annum through the Annual Reports', Reserve and Resource reporting process.

Tenement Schedule

As at 30 June 2017

Mineral Resource and Syngas Resource Governance & Disclosures (continued)

The Mineral Resource and Syngas Resource Statements included in the 2017 Annual Report are reviewed by the suitably qualified competent person (in the case of the Mineral Resources) and the qualified petroleum reserves and resources evaluator (in the case of the Syngas Resources), as described.

Syngas Resource

On 24 August 2017 the Queensland Parliament passed legislation which places a moratorium on all activities relating to UCG through the Mineral Resources Act 1989. This legislation follows the State Governments official announcement on 18 April 2016 to not allow UCG in Queensland. The passing of the legislation has not changed the classification of Carbon Energy's syngas reserve and resource, which will remain in the 2C contingent subclass (as reported in the 2016 Annual Report and repeated below).

During preparation of the company's 2016 Annual Report, MHA Petroleum Consultants LLC (MHA), conducted a review of their previous Reserve Resource Report of 19 September 2014, which contained estimates of UCG Reserves and Contingent Resources.

Based on the State Governments decisions and subsequent communications, it is the opinion of MHA that there are currently no Reserves associated with MDL 374, EPC 867, EPC 869 and EPC1132 located in the Surat Basin, Queensland, Australia. As such, all 1P, 2P and 3P Reserves which were previously assigned to MDL 374 and EPC 867 have now been reclassified as 2C Contingent Resources.

The decision made by MHA to; (a) re-classify Reserves to 2C Contingent Resources, and (b) to recognize that it is appropriate and justified for Carbon Energy to continue to assign 2C Contingent Resources to the referenced assets in light of the recent decision by the Queensland government is based upon the definitions and guidelines published in the 2007 SPE PRMS, as well as the 2011 Guidelines for Application of the PRMS, as approved by the SPE.

It is the opinion of MHA that the appropriate sub-class of Contingent Resources is **Development Unclarified or on Hold**. This sub-class is defined within the PRMS as:

A discovered accumulation where project activities are on hold and/or where a commercial development may be subject to a significant delay.

Further, the PRMS offers the following guidelines in respect of using this sub-class of Contingent Resources in an estimate such as this:

The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development.

Tenement Schedule

As at 30 June 2017

Carbon Energy Syngas Reserve & Resource Comparison 2016 to 2017

Area	Category	2017 Gross Gas Volumes (PJ)	2016 Gross Gas Volumes (PJ)*	Gross Gas Volume Change (PJ)
MDL374	1P Reserves	-	-	-
	2P Reserves	-	-	-
	3P Reserves	-	-	-
	2C Contingent Resource	2,512.4	2,512.4	-
EPC 867	3P Reserves	-	-	-
	2C Resources	13,384.4	13,384.4	-
EPC 869	2C Resources	4,150.3	4,150.3	-
EPC 1132	2C Resources	1,220.1	1,220.1	-
Totals	**1P Reserves**	**-**	**-**	**-**
	2P Reserves	**-**	**-**	**-**
	3P Reserves	**-**	**-**	**-**
	2C Resources	**21,267.2**	**21,267.2**	**-**

Notes on Syngas Reserves and Resources:

- 1P Reserves = Proved
- 2P Reserves = Proved + Probable
- 3P Reserves = Proved + Probable + Possible
- 2C Resources = 2C Contingent Resources

All Gas Resource Estimates (**Gas Estimates**) in this statement are reported in accordance with the requirements of ASX Listing Rules 5.25 to 5.28. It is noted in particular that:

(a) This statement refers to Gas Estimates reported on 19 September 2014 and released to the market on 22 September 2014 and subsequently reviewed 15 July 2016.

(b) All Gas Estimates are based on the deterministic method for estimation of petroleum resources at the field and project levels and are attributable to the gross (100 percent) ownership interest of Carbon Energy in certain coal properties located in MDL 374, EPC 867, EPC 869 and EPC 1132 located in the Surat Basin of Queensland, Australia.

(c) All Gas Estimates are reported using the following conversion factors as relevant:

(i) UCG Energy conversion factor is 16.73 GJ of Syngas per tonne of coal gasified;
(ii) UCG Syngas to Synthetic Natural Gas (SNG) conversion factor is 38.5 to 25.

All Syngas Resources stated in this Report are underdeveloped and unconventional Resources.

Tenement Schedule

As at 30 June 2017

Notes on Syngas Reserves and Resources: (continued)

The Gas Estimates in this statement are based on, and fairly represent, information and supporting documentation prepared by Timothy Hower of MHA Petroleum Consultants of Denver, USA. Mr Hower is a member of the Society of Petroleum Engineers, is a qualified Petroleum Reserves and Resources Evaluator and is an employee of MHA Petroleum Consultants of Denver, USA. Timothy Hower has approved this statement as a whole to the extent it relates to contingent resources and has consented to the use of the statement in relation to contingent resource estimates and supporting information contained in the statement, in the form and context in which they are included.

Mineral Resource

Carbon Energy Coal Resource Comparison 2016 to 2017

Tenure	Mineral Resource Category	2017 Coal Resource (Mt)	2016 Coal Resource (Mt)	Resource Change (Mt)
MDL 374[1]	Inferred	243	243	-
EPC867[2]	Inferred	1,448	1,448	-
EPC868	Not assessed due to insufficient data	-	-	-
EPC869	Inferred	449	449	-
EPC1132	Inferred	132	132	-
	Totals:	**2,272**	**2,272**	**-**

1 EPC 867 excludes resources contained within MDL 374.

Note: Inferred Resources are conceptual in nature.

Constraints on the Inferred Resources are as follows:

1. Points of observation less than 4km apart and not exceeding 1km past the last data point.
2. Minimum seam thickness of 2m (in aggregate of plys)
3. Maximum stone parting thickness of 0.5m
4. Maximum raw ash of 50%
5. Drill holes classed as valid points of observations were defined as holes where;
    a. The entire coal seam was cored or, the drillhole contained slimline geophysics,
    b. Drillhole seam intersection has reasonable stratigraphic correlation

The annual review of the Company’s Inferred Resources concluded that no adjustment was necessary.

For the purposes of ASX Listing Rule 5.23, Carbon Energy confirms that it is not aware of any new information or data that materially affects the information included in the 2 April 2013 Updated Resources Statement and that all material assumptions and technical parameters underpinning the estimates in the Updated Resources Statement continue to apply and have not materially changed.

Tenement Schedule

As at 30 June 2017

Mineral Resource (continued)

The information in this statement that relates to in situ coal resources potential is based on information compiled in 2013 by GeoConsult Pty Ltd and Adrian Buck and reviewed by Warwick Smyth, who is a member of the Australasian Institute of Mining and Metallurgy (CP) Geology; and the Australian Institute of Geoscientists. Warwick Smyth is a qualified geologist (BSc Geol, Grad Dip AF&I, MAusIMM (CP), MGSA, MAIG), and a Principal Consultant for GeoConsult Pty Ltd. And has over 25 years experience which is relevant to the style of mineralisation, the type of deposit under consideration and to the activity which has been undertaken to qualify as a Competent Person as defined by the 2012 edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves. Warwick Smyth of GeoConsult Pty Ltd has no material interest or entitlement, direct or indirect, in the securities of Carbon Energy or the Projects. GeoConsult has been commissioned to provide geological services to Carbon Energy since late 2012. Fees for the preparation of this report are on a time and materials basis. Warwick Smyth and GeoConsult Pty Ltd consent to the use of this statement and references to it and extracts from it, in the form and context in which they are included. Apart from the above, neither the whole nor any part of the statement document, nor references thereto, may be included in, or with, or attached to any document, circular, resolution, letter or statement without the prior written consent of Warwick Smyth or GeoConsult Pty Ltd.

Shareholder Information

As at 9 October 2017

The shareholder information set out below was applicable as at 9 October 2017.

(a) Distribution of Share Holdings as at 9 October 2017.

	Ordinary shares			Ordinary shares subject to escrow [1]		
Size of Share Holdings	**Number of Shareholders**	**Shares**	**% of Issued Capital**	**Number of Shareholders**	**Shares**	**% of Issued Capital**
1 - 1,000	3,753	856,255	1.32%	-	-	-
1,001 - 5,000	785	1,849,481	2.85%	-	-	-
5,001 - 10,000	185	1,339,522	2.06%	-	-	-
10,001 – 100,000	139	3,624,183	5.58%	-	-	-
100,001 and over	18	10,464,961	16.12%	1	46,799,113	72.07%
Total	**4,880**	**18,134,402**	**27.93%**	**1**	**46,799,113**	**72.07%**

[1] Refer to Shareholder Information section (c) below for details

(b) Of the above total 4,235 Ordinary Shareholders hold less than a marketable parcel.

(c) Shareholders in excess of 5% holding are:

Kam Lung Investment Development Company Limited holds 51,946,721 ordinary shares, of which 46,799,113 are subject to an escrow until the 12 month anniversary of the issue and will not be sold, transferred or otherwise disposed or dealt during the escrow period, unless certain events occur. The private placement to Kam Lung Investment Development Company Limited was approved by shareholders on 18 July 2017.

(d) Voting Rights

The voting rights attached to the ordinary shares are governed by the Constitution. On a show of hand every person present who is a Member or representative of a Member shall have one vote and on a poll, every member present in person or by proxy or by attorney or duly authorized representative shall have one vote for each fully paid share held.

(e) Other Information

1. The names of the joint Company Secretary are Ye-Fei Guo and Ian Morgan.
2. The address of the principal registered office in Australia is Level 9, 301 Coronation Drive, Milton, Brisbane, Queensland 4064, Telephone +61 7 3156 7777.
3. The register of securities is held at, Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000, Telephone +61 2 8280 7001.
4. Stock Exchange Listing Quotation has been granted for all the ordinary share of the Company on all Member Exchanges of the Australian Securities Exchange, and trade under the symbol CNX.
5. Detailed schedules of exploration and mining tenements held are included in the tenement schedule.
7. Directors' interest in share capital is disclosed in the Directors Report.
8. Kam Lung Investment Development Company Limited also holds 100% of the 9,200 convertible notes on issue.

Shareholder Information

As at 9 October 2017

Twenty Largest Shareholders

Shareholders (Fully Paid Ordinary)	Number of Shares	%
KAM LUNG INVESTMENT DEVELOPMENT COMPANY LIMITED [1]	51,946,721	80.00%
PACIFIC ROAD HOLDINGS S.A.R.L.	1,317,223	2.03%
INCITEC PIVOT LIMITED	755,560	1.16%
CITICORP NOMINEES PTY LIMITED	559,738	0.86%
BNP PARIBAS NOMS PTY LTD	330,489	0.51%
COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION	283,464	0.44%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	268,979	0.41%
J P MORGAN NOMINEES AUSTRALIA LIMITED	213,218	0.33%
MRS MEGHA BIYANI	212,436	0.33%
MR KAUSHIK BIYANI	188,281	0.29%
ACEMAC PTY LIMITED	187,981	0.29%
MR ROSS STANLEY	175,599	0.27%
PACIFIC ROAD CAPITAL A PTY LTD	163,215	0.25%
PACIFIC ROAD CAPITAL B PTY LTD	163,214	0.25%
LUJETA PTY LTD	135,906	0.21%
SILVER FOX NOMINEES PTY LTD	130,000	0.20%
CLAYMORE INVESTMENTS PTY LTD	120,000	0.18%
MR CLIFFORD WILLIAM MALLETT & MRS WENDY JUSTINE MALLETT	112,050	0.17%
MR ALEXANDER GONTMAKHER	100,000	0.15%
INVIA CUSTODIAN PTY LIMITED	91,000	0.14%
Top 20 Shareholders	**57,455,074**	**88.48%**
TOTAL ISSUED SHARES as at 9 October 2017	**64,933,515**	**100.00%**

[1] Includes 46,799,113 of shares subject to escrow. Refer to Shareholder Information section (c) above for details.

The above twenty largest shareholders are presented on a non-grouped basis and therefore may not represent the full shareholding by any one beneficiary.

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